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UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

Honorable T. H. Bell  
Secretary of Education  
Washington, D.C. 20202

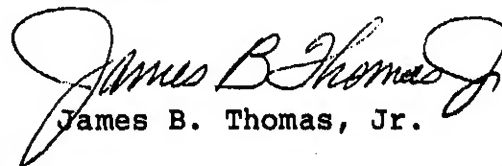
Dear Mr. Secretary:

In accordance with the requirements of Section 5 of the Inspector General Act of 1978 (P.L. 95-452), I am submitting this semi-annual report on the activities of the Department's Office of Inspector General for the six-month period ending September 30, 1982. Highlights of our activities and accomplishments are provided in the Executive Summary which begins on page i.

The Act requires that you submit this report, along with any comments of your own, to appropriate Congressional Committees and Subcommittees within 30 days.

I appreciate the cooperation and support of ED management in helping us carry out our audit and investigation responsibilities. Management has been generally supportive and responsive to our reports and recommendations and has generally acted upon them in a timely manner. I look forward to working with you and other ED management officials in bringing us closer to our mutual goal of improving economy, efficiency and effectiveness of departmental programs and operations, and in preventing and detecting fraud and abuse.

Sincerely,

  
James B. Thomas, Jr.



## EXECUTIVE SUMMARY

This is the fifth semi-annual report issued by the Department of Education (ED), Office of Inspector General (OIG) pursuant to the provisions of the Inspector General Act of 1978 (P.L. 95-452). The report summarizes the activities and accomplishments of the OIG during the period April 1, 1982 through September 30, 1982. Reporting requirements mandated by the Act are indexed to this report on page V-1.

Our activities for this reporting period again showed significant results.

- o We issued or processed a total of 1,118 audit reports on ED operations, grantees and contractors. These reports recommended disallowance of costs totaling \$38.4 million and questioned additional costs of \$30.7 million. In addition, we made recommendations to seek recovery of \$94.6 million in unneeded advances, a duplicate payment and land. Our audits included recommendations which will result in cost avoidances of about \$25.4 million. We also identified a number of opportunities for improvement in the administration of ED programs by Federal officials, State and local education agencies, and others. Several of the problems noted have national implications and have been or will be addressed in comprehensive reports to Departmental managers (page I-1).
- o Program managers sustained and marked for recovery \$26.2 million in costs recommended for disallowance or questioned. Management made additional commitments to recover \$86 million in unneeded advances held by State guarantee agencies, a duplicate payment of \$5.6 million and Federal property valued at about \$3 million. Recommendations for cost avoidance totaling \$21.6 million were also sustained. A total of \$5.6 million was recovered on resolved audits (page I-1).

- o The Department continued its progress in reducing the number of unresolved audits over six months old. As of September 30, 1982, there were 130 unresolved audits over six months old, compared to 1,804 as of September 30, 1981 (page I-26).
- o OIG opened 205 investigative cases and closed 138. U.S. Attorneys accepted 120 cases for prosecution and OIG cases resulted in 105 indictments. In addition, OIG investigations led to 37 convictions. Fines and restitutions amounted to about \$124,000 (page II-2).

Examples of some of the more significant audits and investigations completed this period follow.

- o A review of the Migrant Education program in one State disclosed that as many as 24 percent of the students served under the program did not meet program eligibility requirements. We also found that eligibility determinations were not supported in many cases. We recommended that the State refund \$24.8 million and either provide appropriate documentation or refund an additional \$5.5 million for the questionable determinations (page I-7).
- o An audit to determine the present need for \$86 million in Federal advances provided to State guarantee agencies disclosed that the advances were no longer needed for the purposes intended. We recommended that the Department take appropriate action to recover the \$86 million plus accrued interest (page I-18).
- o An audit of a school disclosed that the institution was not properly utilizing for educational purposes land transferred to it by the Federal government. We noted, among other things, that the school failed to meet required enrollment targets, did not use the land continuously for educational purposes, and failed to fully maintain the property as required. The Department has taken appropriate action to recover the land with an estimated value of about \$3 million (page I-12).

- o An audit of a major Departmental contractor disclosed that large amounts of Education funds were being misspent or misapplied. We found that about \$250,000 was improperly charged to the Federal contract, and that there was an additional \$4.7 million in unsupported charges to the contract. More importantly, we found that the actions of contractor officials in administering the contract were highly questionable. The Department has decided not to award two proposals submitted by this particular contractor for future funding. These proposals were valued at \$10 million (page I-24).
- o As a result of a nationwide effort to identify and prosecute ineligible aliens who have fraudulently obtained student financial assistance, a total of 92 indictments have been obtained (63 in this period). This project was initiated last period in cooperation with several other Federal agencies and is ongoing (page II-6).
- o A Federal grand jury indicted five defendants variously with 24 counts of vote buying, election fraud, conspiracy, mail fraud, false statements and misapplication of Federal school program funds. Defendants in this joint OIG/FBI case include a school district superintendent and a school principal (page II-8).
- o A 12-count indictment was returned against a former college president and two college officials. The subjects were charged with embezzlement, making false statements, and conspiracy. As a direct result of this investigation, \$190,000 in additional funding to the school was suspended. The investigation also supported a claim for the return of another \$210,000 (page II-8).
- o A Federal grand jury returned a 55-count indictment against the owner/operator of a beauty academy. The indictment charges the owner/operator with mail fraud, making false statements and conversion of government funds. The charges stem from alleged abuse of the Pell Grant program. The defendant is alleged to have misappropriated over \$150,000 in Federal funds as part of a fraudulent scheme (page II-9).





CHAPTER I  
AUDIT ACTIVITIES

A. INTRODUCTION

Audits performed this period identified substantial opportunities for improving the economy, efficiency and effectiveness of programs administered by the Department and its grantees. They also included recommendations aimed at recovering millions of dollars in misspent or unneeded Federal funds.

Summary statistics and highlights of major audits and related activities are presented in the following sections.

B. SUMMARY STATISTICS

Measures of audit output and productivity for this period remained high.

| <u>COMPARATIVE SCHEDULE OF AUDIT<br/>OUTPUT/PRODUCTIVITY MEASURES</u><br>(Dollars in Millions) |                                  |                |               |
|--|----------------------------------|----------------|---------------|
|  | <u>Six-Month Periods Ending:</u> |                | <u>FY 82</u>  |
|  | <u>3/31/82</u>                   | <u>9/30/82</u> | <u>Totals</u> |
| Reports Issued/<br>Processed   | 2,454                            | 1,118          | 3,572         |
| <u>Recommended Recoveries:</u>   |                                  |                |               |
| Costs Questioned/<br>Disallowed  | \$ 106.5                         | \$ 69.1        | \$ 175.6      |
| Other*   | -                                | 94.6           | 94.6          |
| <u>Recommended Recoveries</u><br><u>Sustained:</u>   |                                  |                |               |
| Costs Questioned/<br>Disallowed  | 32.4                             | 26.2           | 58.6          |
| Other*   | -                                | 94.6           | 94.6          |
| Recommended Cost<br>Avoidance  | 7.3                              | 25.4           | 32.7          |
| Recommended Cost<br>Avoidance Sustained  | -                                | 21.6           | 21.6          |
| Recoveries   | \$ 7.7                           | \$ 5.6         | \$ 13.3       |
| *Includes recall of advances, duplicate payment and land.                                      |                                  |                |               |

The drop in number of reports issued or processed is largely attributable to a decline in audits done by independent public accountants on postsecondary institutions. This was due to the fact that such audits are performed every two years at times established by the institution. This cycle causes the number of reports received to fluctuate from period to period. Reports issued or processed by us also declined because budgetary constraints required that we suspend reimbursable agreements with other audit organizations that conduct audits for us.

Reports issued or processed this period include financial and compliance audits of grantee operations and institutions of higher education, internal reviews of Departmental programs and operations and audits of ED contractors.

Costs recommended for disallowance or questioned in these reports represent Federal funds which were not spent in accordance with legal requirements or with the terms of grant and contract provisions. Following is a schedule by operating component showing audit reports issued or processed by OIG.

| <u>SCHEDULE OF COSTS DISALLOWED/QUESTIONED</u><br><u>BY OPERATING COMPONENT</u><br>(Dollars in Millions) |                                  |   |                             |
|--|----------------------------------|---|-----------------------------|
| <u>Action Office</u>   | <u>Number<br/>of<br/>Reports</u> | <u>Recommended<br/>Cost<br/>Disallowances</u> | <u>Costs<br/>Questioned</u> |
| Postsecondary Education  | 917                              | \$ 4.5  | \$10.0                      |
| Assistance Management and<br>Procurement Services  | 142                              | 2.4   | 8.2                         |
| Educational Research<br>and Improvement  | 26                               | 2.4   | 6.3                         |
| Special Education<br>and Rehabilitative Services   | 10                               | .6  | -                           |
| Vocational and<br>Adult Education  | 8                                | 3.6   | .3                          |
| Elementary and Secondary<br>Education  | 7                                | 24.9  | 5.9                         |
| Bilingual Education<br>and Minority Languages<br>Affairs   | 6                                | -   | -                           |
| Management   | 2                                | -   | -                           |
| <b>TOTALS</b>  | <u>1,118</u>                     | <u>\$38.4</u>                                 | <u>\$30.7</u>               |

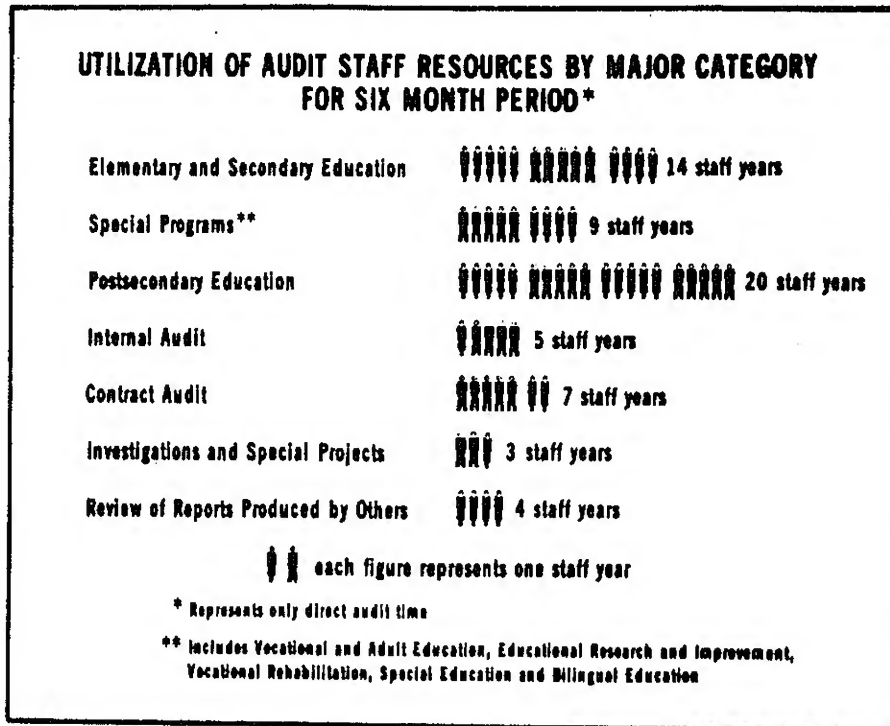
Some of the more significant audits leading to the large amounts of dollars recommended for disallowance or questioned in these program areas are described in the Highlights of Significant Audits section of this report (page I-5).

Audit reports issued this period represent both those audits completed by our own staff and those processed by us which were completed by other Federal auditors, State and other governmental auditors, and independent public accountants. Following is a schedule showing the sources of all reports issued or processed and costs recommended for disallowance or questioned by Federal or non-Federal audit groups.

| <u>SOURCE OF AUDITS ISSUED</u><br>(Dollars in Millions) |                                  |   |                             |
|---|----------------------------------|---|-----------------------------|
|   | <u>Number<br/>of<br/>Reports</u> | <u>Recommended<br/>Cost<br/>Disallowances</u> | <u>Costs<br/>Questioned</u> |
| Federal Auditors  |                                  |   |                             |
| ED-OIG  | 130                              | \$34.5  | \$21.30                     |
| Others  | 36                               | .4  | .04                         |
| State and Other<br>Non-Federal Auditors                 | 127                              | .5  | .01                         |
| Independent Public<br>Accountants                       | <u>825</u>                       | <u>3.0</u>                                    | <u>9.40</u>                 |
| TOTALS  | <u>1,118</u>                     | <u>\$38.4</u>                                 | <u>\$30.75</u>              |

C. ALLOCATION OF AUDIT RESOURCES

ED-OIG is providing the Department with a varied program of internal and external audits. Direct audit time devoted to major Departmental programs and activities is depicted below.



ED-OIG again applied major audit effort in the areas of Elementary and Secondary Education, Special Programs, Postsecondary Education and contract and internal audits. The allocation of our audit resources in these areas continues to provide a good return on our investment through recovery of costs disallowed and questioned. More importantly, efforts in these areas have provided ED management with numerous recommendations for correcting underlying conditions contributing to the problems noted, thereby avoiding unnecessary costs in the future.

We were unable to complete Vocational Education audits in all 50 States, the District of Columbia and six territories by the end of fiscal year 1982 as required by Public Law 94-482. To date we have completed 28 of these audits. An additional nine are in process and 13 new audits are tentatively planned for fiscal year 1983. The remaining seven audits and possibly some of those tentatively planned will be completed under the requirements of OMB Circular A-102, "Uniform Requirements for Grants to State and Local Governments," Attachment P, wherever possible. In this regard, we are working closely with the States to ensure that appropriate audit coverage is given to Vocational Education in any A-102 audits initiated by the States or other jurisdictions.

In keeping with our audit oversight responsibilities, we also used approximately four staff years of effort on desk reviews and quality control reviews of audit reports prepared by others. These reviews are made in conformance with the Inspector General Act which requires that we ensure that the audit reports and actual audit work performed for us by non-Federal auditors meet standards established by the Comptroller General for audits of governmental organizations, programs, activities and functions.

D. HIGHLIGHTS OF SIGNIFICANT AUDITS

Following are examples, by major program area, of some of the more significant audit findings included in the reports issued this period. The findings include a wide range of deficiencies in the administration of ED programs and activities by State and local governments, educational institutions, profit and nonprofit organizations, and Departmental headquarters and regional offices. These deficiencies range from poor accounting practices and

inadequate administration of program activities to misuse of Federal funds, and have resulted in recommended disallowances or questioned costs and other recoveries.

1. Elementary and Secondary Education

During the past six-month period, we issued seven audit reports on programs in Elementary and Secondary Education. These reports recommended disallowances of \$24.9 million and questioned costs of \$5.9 million.

Major program areas administered by the Office of Elementary and Secondary Education include: assistance for operating programs for educationally deprived children; assistance to States and local school districts in improving educational quality; and assistance to school districts in which the tax base is diminished by the presence of Federal facilities. By far, the largest program administered under Elementary and Secondary Education is Chapter I of the Education Consolidation and Improvement Act (formerly Title I of the Elementary and Secondary Education Act of 1965).

The purpose of Chapter I is to provide Federal assistance to local education agencies for planning and operating special education programs for educationally deprived children in areas having a high concentration of children from low-income families. The local education agencies are responsible for developing and implementing projects to fulfill the intent of Chapter I. For fiscal year 1982, \$2.9 billion (representing about 20 percent of the entire Department budget) was allocated for Chapter I programs. About \$2.6 billion, or 90 percent, of the Chapter I allocation was distributed by formula through State education agencies as

basic grants to local agencies to upgrade the education opportunities for educationally deprived children.

a. \$30 Million in Migrant Education Funds Questioned or Disallowed Due to Participant Ineligibility

The Migrant Education program was authorized by the 1966 amendments to Title I of the Elementary and Secondary Education Act of 1965. The program is designed to establish or improve programs to meet the special education needs of children of migratory agricultural workers or fishers. We recently issued an audit report on the eligibility of children served by the Migrant Education program in one State. The report recommended that \$24.8 million be returned to the Federal government because of ineligible children served under the program and questioned an additional \$5.5 million because of undocumented eligibility determinations by the State.

The audit findings were based on a statistical sample of 500 individual cases of eligibility determinations made by local education agencies receiving funds for fiscal years 1980 through 1982. Our review disclosed that in 122, or 24 percent, of the cases reviewed, the children were in fact ineligible to be served under the program. In 28 other cases in which the local agencies declared the children eligible, we found no supporting documentation of eligibility.

The major reasons for children being considered ineligible were: (1) there was no indication of a move between school districts; (2) the children's parents or guardians were not employed in seasonal or temporary agricultural employment; (3) immigrants from countries not bordering the United States were enrolled as current migrants upon arriving in this



country; and (4) children were enrolled as former migrants for more than five years without evidence of any move.

In addition to the recommendation that \$24.8 million be returned, we also recommended that the State obtain the necessary documentation for the unsupported cases or refund an additional \$5.5 million. We further recommended that the State monitor the local agencies to ensure that only eligible participants are enrolled in the program. Departmental officials are currently resolving the findings and recommendations contained in this report.

b. Deficiencies in Grantee's Administration of  
Emergency School Aid Act Result in Failure to  
Fully Achieve Intent of Program

A review of one school district's use of funds under the Emergency School Aid Act disclosed numerous deficiencies in the administration and control of the program, resulting in recommended disallowances and questioned costs of \$2.1 million. Because of these deficiencies, the projects funded in the district were not fully successful in accomplishing the intent of the Act to encourage or assist in the elimination of segregation and discrimination within elementary and secondary schools. Generally, our audit noted that minority group isolation had not changed significantly during the grant period and that the grantee had continued to fund projects at certain locations even after they were considered to be desegregated.

Specifically, we found that the grantee had failed to meet the enrollment ratios prescribed by regulations at five of its magnet schools. We also recommended disallowances or questioned other costs identified as ineligible because they

were spent at ineligible schools or violated special terms or conditions of the grant award.

c. Funding Non-Comparable Title I Schools  
Leads to Disallowed Costs of \$587,000

An audit of the Title I program in one school district disclosed that services provided to Title I schools in the district were not at a level consistently comparable with services provided to non-Title I schools. Federal regulations require that such comparability be maintained between target and non-target schools in order for a local education agency to receive Title I funds. The regulations also permit a local educational agency to separate its schools into large and small enrollment schools for the purpose of determining comparability, provided it can justify the division.

Our review of the comparability reports for this school district indicated that the district's comparability data was reasonably and accurately reported except for the lack of justification for dividing the schools into large and small enrollment groups. In our opinion, the sole purpose for which the district made this division was to avoid providing additional State and local funds to ensure comparable services for all Title I schools. We found for example that eight of the 51 Title I schools in the district were not providing services comparable to non-Title I schools. As a result, we recommended the disallowance of \$587,000 in Title I funds received by the eight schools found to be in non-compliance. Program officials are currently resolving the findings contained in this report.

## 2. Student Financial Assistance

Student Financial Assistance programs are administered by the Office of Postsecondary Education and provide financial aid to individuals to obtain education or training beyond the high school level. In fiscal year 1982, the financial aid program totaled about \$6.6 billion in grants, direct loans, interest on loans, loan guarantees and earnings through work study programs. There are approximately 6,500 institutions of higher learning participating in the Department's Student Financial Assistance programs.

During the six-month period covered by this report, the OIG issued or processed 917 audit reports on postsecondary education programs, most of which concerned administration of the Student Financial Assistance programs. These reports recommended disallowances of \$4.5 million and questioned costs of \$10 million.

In addition to audit work involving the Student Financial Assistance programs, the bulk of OIG's investigative workload is comprised of cases in this area. (Refer to Chapter II of this report for more information.)

Audit reports issued this period identified a number of opportunities for improvements in the administration of education programs by postsecondary educational institutions, State guarantee agencies, lenders, and the Department of Education. Some of the significant problems found related to excess Federal advances on hand at State guarantee agencies; lack of due diligence in collecting student loans in default; improper college recruitment and admission practices and improper use of Federal land by a school.

a. Audit of State Guarantee Agency Identifies \$6.9 Million in Unneeded Federal Advances and Costs Questioned or Recommended for Disallowance

A report on one guarantee agency identified unneeded funds and recommended for disallowance or questioned a total of \$6.9 million. Of this amount, \$3.9 million consisted of recommended recoveries of Federal advances and accrued interest which was no longer needed for the purposes intended. While we noted that the policies and procedures established by this guarantee agency were generally in accord with Federal laws and regulations, our audit disclosed significant weaknesses in the guarantee agency's financial management system and in its exercise of due diligence in the collection of defaulted loans.

Among the financial management weaknesses noted were: incorrect reinsurance claim computation, incorrect computation of administrative cost allowance, failure to recover accrued interest on all defaulted loans and failure to pay the Department's share of collections in a timely manner. The agency's incorrect computation of its reinsurance claim in fiscal year 1979 resulted in an overpayment by ED of \$453,000. In addition, the agency had earned interest of \$92,000 on this overpayment through September 1981. Further, the agency received overpayments of \$181,000 because it improperly computed its administrative cost allowance during fiscal years 1977 to 1979. The interest earned on these overpayments totaled \$75,000 through September 1981. We also questioned an additional \$1.5 million in administrative costs because of a lack of supporting documentation.

We further noted that the agency did not recover accrued interest on all defaulted loans for which ED had paid a claim and which the agency subsequently got the defaulters to repay. As a result, we estimated that since fiscal year 1975 the Federal government may have lost about \$195,000 on closed out defaulted loan accounts and could lose another \$465,000 on defaulted loan accounts in repayment as of March 1981. We also found that the Federal share of the agency's collections from defaulters was not being forwarded to ED within the required 60-day period.

The guarantee agency disagreed with all findings involving costs questioned or disallowed and with our recommendation to return Federal advances that are no longer needed for the purposes intended. The Office of Postsecondary Education is working with the agency to resolve the findings contained in the report.

A previous OIG audit of another guarantee agency, cited on page I-23 of our last semi-annual report, also found excess Federal cash advances and accrued interest. As a result of these audits, a separate review was made of cash advances held at guarantee agencies nationwide and is discussed on page I-18 of this report.

b. Recovery Sought of Federal Land With Estimated Value of \$3 Million

Our audit of a postsecondary institution disclosed that it failed to meet conditions set forth in a real property agreement which transferred 643 acres of land from the Federal government to the institution. As a result action has been initiated to recover the property, with an estimated value of about \$3 million.

The school had received a total of about \$7 million in Federal funds through June 30, 1981, including \$2 million in aid to students. The Federal government transferred the land to the school at no cost provided that it met a number of conditions. Our review disclosed that the school failed to meet four of these conditions, namely: (1) it had not achieved the required on-campus enrollment of 200 students; (2) it had not used the property continuously for educational purposes; (3) it had neither paid to ED nor held in trust lease revenues received from local farmers for use of the land; and (4) it had not fully maintained the property. Because of the school's failure to comply with these requirements, we recommended that it be required to return the land to ED.

In addition to the deficiencies noted above, we also found that the school had not made the improvements to its student financial aid programs recommended in prior audit reports. Our limited review of student files disclosed numerous significant problems, including unsatisfactory academic progress by some students and untimely and inaccurate payments by the school to students. We made a number of procedural recommendations and also recommended that the school have its certified public accountant examine these areas during its required audit of the student aid programs to determine the actual amount of any ineligible costs incurred for the student aid programs.

The Department and the U.S. Attorney's office have initiated action to recover the land based on the school's noncompliance with the real property agreement. The Department also sustained our other recommendations.

c. Misuse of Student Aid Funds Results in Decision to Withhold Funds from School

An audit initiated in response to Congressional concern over possible misuse of Federal funds disclosed significant misuse of ED funds by a postsecondary institution. For the three years ended in June 1982, the school had been authorized about \$2 million in student aid funds. We found that the school had employed misrepresentation in its recruitment practices and had used improper admission practices.

The school had employed misrepresentation in its recruitment practices in order to encourage students to apply for admission. For example, the institution quoted very high but inaccurate job placement rates for its successful graduates. Further, students were recruited with the promise that Federal grants would pay for their schooling, yet the funds awarded were not usually sufficient to meet all student costs. As a result, many students who enrolled in the school later dropped out because of insufficient funds.

We also found improper admission practices at the school. The school's entrance testing was manipulated to permit enrollment of students of questionable ability. We found that over 50 percent of the student files either had no copy of the test or indicated that the student had failed the test. These conditions contributed to the drop-out rate which was about 80 percent for 1980 and 1981.

We recommended that emergency action be taken to withhold ED funds from the school and withdraw its authority to obligate funds under the student aid programs. We also recommended that termination proceedings be initiated and

substantial fines be levied. As a result of these recommendations, the Office of Student Financial Assistance suspended the institution's authority to draw Federal funds and initiated action to terminate the institution's participation in the student aid programs.

d. Significant Deficiencies in School's Administration of Student Financial Assistance Programs

Our review of student financial aid programs at one college found that the college had not established a standard of satisfactory progress. The establishment and publication of such a standard is required by the regulations governing the student financial aid programs, as a condition precedent to making any awards to students. The regulations provide that students who are not making satisfactory academic progress are ineligible to receive student aid. Financial aid awards made by the college for the four-year period ended June 30, 1981, totaled \$1.3 million.

Another significant deficiency in the administration of student financial aid noted during our review was that the college did not exercise due diligence in the collection and litigation of National Direct Student loans in default. At the time of our review, 60 percent of the loans in repayment status were in default. Although the Higher Education Act requires institutions to take very specific steps to recover defaulted loans, we found no evidence that the college had made any meaningful attempt to collect the loans. In fact, it was the position of the school not to initiate litigation against defaulters. It was only recently that the college hired personnel to begin to rectify this situation.



We recommended that the college establish necessary policies and procedures and assign appropriate individuals to ensure proper administration of student financial aid, and that it establish and publish a reasonable standard for determining satisfactory progress of students. We also recommended that the college examine individual awards to determine the actual amount improperly awarded that should be returned to the Federal government.

### 3. Other Programs

#### a. Vocational Education - Refund of \$3.1 Million Recommended Due to Failure to Ensure Maintenance of Effort

Our audit of one State's vocational education program disclosed that the State had failed to ensure that maintenance of effort requirements were being met by all of its subrecipients. Specifically, in 22 cases, the local school districts or postsecondary institutions had failed to maintain non-Federal funding at the required level compared to previous fiscal years. Federal guidelines stipulate that receipt of Federal funding cannot result in a reduction of State and local funding.

Because of this reduction in funding, we determined that over a three-year period, the local agencies had been ineligible to receive about \$3.1 million in Federal vocational education funds awarded through the State. Consequently, we recommended that the State develop and implement procedures to ensure future compliance by local agencies with the maintenance of effort requirements and withhold funding from local agencies which fail to meet these requirements. We also recommended that the State refund \$3.1 million to the

Federal government. Departmental officials are currently resolving the findings and recommendations contained in this report.

b. Library Services and Construction Act - \$1.6  
Million in Obligations and Expenditures Incurred  
After Carryover Period

The Library Services and Construction Act program, authorized by Public Law 84-597, as amended, provides funds to help States establish, extend, and improve public libraries in areas that are without these services or in which these services are inadequate. During this period, we issued a limited scope financial and compliance audit of 1976 and 1977 grant awards in this program made to one State. The audit, requested by the Office of Libraries and Learning Technologies, disclosed that the State agency incurred \$1.6 million in unallowable costs because it obligated and expended Federal funds after the authorized grant period had expired.

The State agency contends, however, that it acted under Federal guidance and that there was no time limit for expenditure, thereby permitting indefinite carryover of funds. Since this is contrary to Federal statutes and regulations, we recommended that the State agency refund \$1.6 million to the Department. The Department concurred with our recommendation and has requested recovery of the funds.

4. Internal Audits

During this period, the OIG initiated seven internal audits and issued seven final reports on the internal operations of the Department. In addition, OIG continued its participation

in two President's Council on Integrity and Efficiency (PCIE) audit initiatives and initiated a review in another PCIE project concerning cash management through the use of letters of credit. A discussion of significant internal audits completed this period follows.

a. Guarantee Agencies' Reserves - Federal Advances No Longer Needed

Recent OIG audits of State guarantee agencies participating in the Guaranteed Student Loan program (see p. I-11) have found that two guarantee agencies had on hand Federal advances and accrued interest which appeared to be no longer needed for the purposes intended. As a result of these audits, we decided to review the reserve positions of guarantee agencies nationwide to determine if other agencies had Federal advances which appeared to be in excess of their needs. There were 51 agencies in operation during fiscal year 1981. Federal advances ranged from \$85,000 each at several agencies to more than \$15.6 million at one agency. Total reserve balances ranged from \$177,000 to more than \$112 million.

We concluded that these Federal advances were no longer needed for their original intent. One of the objectives of the Higher Education Act of 1965 had been to encourage State and private nonprofit agencies to establish adequate loan insurance programs for students enrolled in eligible institutions. To accomplish this, the Federal government has over the years provided advances totaling \$86 million to such agencies to help establish or strengthen their reserves against potential losses from defaults. Prior to enactment of the Higher Education Act only 17 States had independent agencies guaranteeing student loans. Now 49

States, the District of Columbia and one territory have agencies. As of September 30, 1981, their reserves totaled about \$476 million.

The need for these large guarantee agency reserves has decreased, however, because, as a result of changes in the program, the Federal government now reimburses guarantee agencies for most costs associated with the program. Thus, in our opinion, guarantee agencies have built up their reserves so that they no longer need to retain the \$86 million in Federal advances. We recommended, therefore, that the Department take positive steps to recover both the Federal advances and the interest earned on them. By so doing, the Federal debt can be reduced by \$86 million and its annual interest outlay can be decreased by \$11.6 million annually (assuming a 13.5% interest rate). Furthermore, alternate methods of ensuring the availability of Federal funds, such as the use of letters of credit, can be used in lieu of direct cash advances.

Different statutory authorities under which the advances were made will require that different steps be taken to effect recovery of the funds. Of the \$86 million in advances, \$21 million is outstanding under advance payment authorizations made in 1965 and 1968, and \$65 million is outstanding under a 1976 authorization. The advances made under the 1965 and 1968 authorizations may be recovered at the Secretary's discretion, but the 1976 advances will require a change in legislation to effect recovery.

While the Department agreed with our position on recovery of the advances and has already initiated action including proposed legislation to recover them, the Department has not

yet agreed to our recommendation to recover the interest earned on them.

b. Computer Match Project - Federal Employees in Default on Student Loans

Defaulted loans made under the Federally Insured Student Loan, Guaranteed Student Loan and National Direct Student Loan programs represent over \$1 billion in funds due the Federal government from over 800,000 student loan defaulters. Of this number, a potentially large number of Federal employees may be in default. Consequently, the OIG is participating in a computer matching program of the President's Council on Integrity and Efficiency. OIG's participation involved conducting a match to identify current and retired Federal employees in default on student loans.

While computer matches have been initiated in the past in this area, the potential return from this current effort appears much greater for several reasons. First, the match includes defaulters in the Federally Insured Student Loan (FISL), Guaranteed Student Loan and National Direct Student Loan programs, as opposed to the previous match which only included the FISL program. Second, the total volume of loans in default included in the match is now approximately 800,000, worth over \$1 billion; when previous matches were conducted, these figures were 300,000 and \$300 million respectively. Thus, the potential universe of "hits" that can be targeted for recovery is much larger.

A number of steps will be taken to ensure maximum recovery of the delinquent debts. Current or retired Federal employees will be contacted to resolve their indebtedness. If the defaulters are not responsive, their employing agencies will

be contacted to counsel the employees about their indebtedness. Where appropriate, cases will be referred to U.S. Attorneys for enforced collection. In addition, with the recent passage of the Debt Collection Act of 1982, Federal agencies now have authority to collect such debts through salary offsets.

The actual computer match was conducted in late August and identified a substantial number of "raw hits," of potential defaulters that are Federal employees. These "raw hits" are being reviewed to verify that matches between employees and default records are valid and that the matched accounts are still in default status. After completion of this verification process, collections will be initiated as discussed above.

c. Year-End Spending Practices Need Improvement

During this period, we performed reviews of year-end spending practices in the Department of Education for fiscal year 1981. We conducted two separate audits of spending practices used to award contracts, grants and purchase orders processed during September 1981. One audit covered the entire Department, except the National Institute of Education which has separate contracting authority. The other covered the National Institute of Education. Both audits disclosed that, for the most part, procurement actions completed in September followed proper procedures.

Our audit of year-end procurement in the Department at large, for example, showed that in most cases proper procurement planning had been carried out, need for the product or service had been adequately documented, competition had been solicited and price had been negotiated. Many of the awards

were made in September because of factors over which the Department had little control. These included factors originating within and outside the Department, including a moratorium on procurement of audiovisual materials, a freeze on salaries and expenses and a freeze on consultant services contracts. Other awards were made in September because of inadequate monitoring by the Assistance Management and Procurement Service, the organization responsible for procurement.

Some contracts and grants awarded by the Department in September, however, were unplanned and shortcut certain procurement and grant steps. These awards, which totaled over \$2.3 million, were made because Department senior staff directed that certain grants and contracts be made on a sole source basis or requested special handling of other procurements. While such awards represented a relatively small percentage of the total awarded in September, their occurrence is serious since such awards shortcut the full procurement cycle and bypass the assurances which best serve the interests of the Department.

In our audit at the National Institute of Education, we found that year-end spending was effectively controlled for the most part although we did identify three procurements totaling \$251,000 which were either unplanned or were for services that did not meet current needs.

In both audits, we recommended closer adherence to established procedures in order to prevent future occurrences of unnecessary year-end spending. We also recommended that the Assistance Management and Procurement Service improve its scheduling of awards and monitor the deadlines established to ensure compliance by Department program offices. The Acting

Director of the National Institute of Education generally agreed with our recommendations. The Deputy Under Secretary for Management stated that he would review the feasibility of implementing our recommendations.

d. \$5.6 Million Duplicate Payment Marked for Recovery

During the conduct of our ongoing audit of controls over interest payments made under the Guaranteed Student Loan program, we identified a duplicate payment made to a State lender in the amount of \$5.6 million. After our notification of the overpayment, Departmental officials immediately advised the lender and effected the recovery of a check for the full amount of the overpayment. Because the lender had use of the funds for 22 days, during which time they were invested and earned interest, we have also taken action to initiate recovery of the interest earned.

5. Contracts and Discretionary Grants

ED annually awards approximately 12,000 discretionary grants and 1,000 contracts totaling about \$1.5 billion. The awards are made to State and local governments, educational institutions, and profit and nonprofit organizations for a variety of educational services. The Office of Assistance Management and Procurement Service and the National Institute of Education have responsibility for awarding contracts and discretionary grants. OIG provides a variety of contract and grant audit services to the Department, including audits of cost proposals and contract closing statements.

Contract and grant audit services are provided directly by ED-OIG staff and by other Federal audit offices - principally the Department of Health and Human Services' Office of



Inspector General and the Defense Contract Audit Agency - under interagency audit agreements. Budgetary constraints during this period forced us to curtail our use of these offices to provide these services. As a result, the number of reports issued during this period has declined.

During the reporting period, OIG issued 142 contract and grant audit reports that recommended disallowances of \$2.4 million and questioned costs of \$8.2 million. Also, we identified potential cost avoidances of about \$11.7 million on pre-award audits. These audits continue to be effective in identifying and avoiding potential waste and abuse in the Department's procurement activities.

Examples of the two major categories of these audits are included below. Closeout audits of contracts are necessary to ensure that costs claimed and reimbursed are reasonable, allocable and allowable under Federal procurement regulations and Department requirements. Pre-award audits of cost proposals are advisory in nature but they serve an important function in assisting Department officials in final negotiations with contractors by identifying areas for potential cost savings.

a. Misuse of Federal Funds at Major Department of Education Contractor Disclosed by Closeout Audit

Our audit of a major Department of Education contractor which had received over \$12.5 million between 1978 and 1980, disclosed a need for improved control over the management of Federal funds to ensure that they are properly utilized within Federal guidelines.

Specifically, the auditors found that labor costs were charged to the Federal contract which should have been charged to non-Federal contracts, employees' private businesses or indirect costs. These costs were incorrectly charged because the contractor's labor distribution system was based on budget estimates and unexpended fund balances rather than actual effort. We identified over \$250,000 in such incorrect charges and questioned an additional \$4.7 million because documentation was insufficient to ascertain the allocation of all the contractor's labor charges.

The audit also disclosed that the contractor had converted to its corporate income the income generated by its Federal grants, including the sale of government property, royalties on sale of publications and fees from participant students. Other deficiencies included: unallowable consultant costs, Federal funds funnelled into a private school, Federal funds used to finance private publications and premature letter-of-credit drawdown of funds.

In addition to the \$4.7 million in labor charges questioned, the audit identified about \$185,000 in costs that should be returned to the Department and about \$132,000 that should be reallocated to the proper grant, contract or indirect cost.

Department officials decided not to award two proposals from this contractor totaling about \$10 million. Also, the Department has received a payment of about \$200,000 and is continuing to work with the contractor to effect additional recoveries.

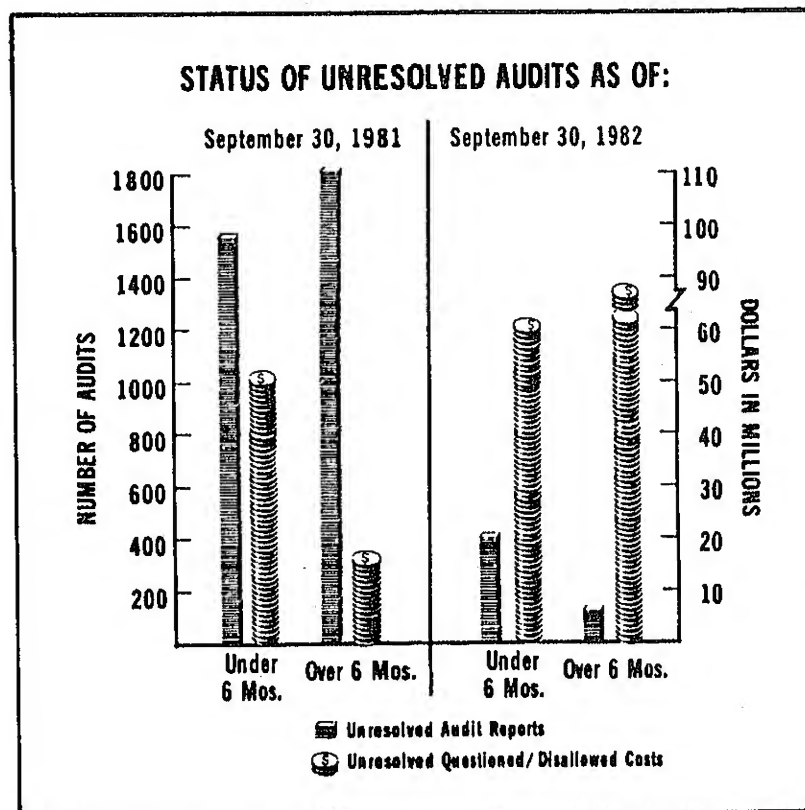
b. Pre-award Audit Identifies \$206,000 in Questionable Costs

We conducted a pre-award audit of a cost proposal for \$328,000 submitted by a State education agency to design a comprehensive statewide delivery system for handicapped children and youths. The audit identified about \$206,000 of the \$328,000 in proposed costs that were of a questionable nature and recommended the contracting office reconsider the need and justification for such proposed costs.

E. AUDIT RESOLUTION AND RECOVERY OF FUNDS

1. Resolution of Audit Reports

Over the past year, the Department was able to reduce the number of unresolved audits on hand to a more manageable level. Special attention to resolving audit reports over six months old has resulted in continued declines. On September 30, 1981, for example, we reported that there were 1,804 unresolved audits over six months old with questioned or disallowed costs totaling \$17.4 million. As of the close of this reporting period, there were 130 unresolved audits over six months old with questioned or disallowed costs of \$89.2 million. Although the dollar amount of these audits has increased significantly, 59 percent of this amount is comprised of three unresolved audits. A comparison of unresolved audits on hand this period to the same period last year is presented below.



Audit resolution by major action office is shown in the following schedule. As in prior periods, the Office of Postsecondary Education has, by far, the greatest activity. This is due to the hundreds of audit reports received each year on postsecondary institutions participating in Student Financial Assistance programs.

| AUDIT RESOLUTION ACTIVITY                          |  |                                  |                           |   |                                     |
|--|--|----------------------------------|---------------------------|---|-------------------------------------|
| April 1, 1982 to September 30, 1982                |  |                                  |                           |   |                                     |
| Action Office                                      | Unresolved Audits on Hand as of 4/1/82 | Action Audits Issued This Period | Audits Closed This Period | Unresolved Audits on Hand as of 9/30/82 | Unresolved Audits Over 6 Months Old |
| Postsecondary Education                            | 1,476                                  | 713                              | 1,770                     | 419                                     | 109                                 |
| Assistance Management and Procurement Services     | 93                                     | 86                               | 104                       | 75                                      | -                                   |
| Special Education and Rehabilitative Services      | 16                                     | 8                                | 12                        | 12                                      | 5                                   |
| Vocational and Adult Education                     | 14                                     | 7                                | 6                         | 15                                      | 8                                   |
| Elementary and Secondary Education                 | 12                                     | 6                                | 10                        | 8                                       | 3                                   |
| Educational Research and Improvement               | 10                                     | 16                               | 13                        | 13                                      | 3                                   |
| Bilingual Education and Minority Languages Affairs | 3                                      | 3                                | 1                         | 5                                       | 2                                   |
| Planning, Budget and Evaluation                    | -                                      | 1                                | -                         | 1                                       | -                                   |
| <b>TOTAL</b>                                       | <b>1,624</b>                           | <b>840</b>                       | <b>1,916</b>              | <b>548</b>                              | <b>130</b>                          |

2. Resolution and Recovery of Disallowed or Questioned Costs

During this period, ED management sustained \$26.2 million representing 43 percent of the \$61.5 million disallowed or questioned in audit reports resolved this period. In addition to the \$26.2 million sustained, program officials identified additional amounts for recovery during the resolution process, bringing the total recoverable to \$29.8 million.

Program managers also made commitments to seek recovery of \$86 million in Federal advances no longer needed by State guarantee agencies, and to recover a duplicate payment of about \$5.6 million and land with an estimated value of about \$3 million.

During this period, a total of about \$5.6 million was recovered on resolved audits.

F. STATUS OF PRIOR AUDIT RECOMMENDATIONS

This section presents the status of audit highlights in our previous semi-annual reports which have yet to be resolved. Management has been generally responsive to our recommendations. The matters reported below, however, are complex or involve large amounts of recommended disallowances or questioned costs.

1. Elementary and Secondary Education

a. Overcharges for Unemployment Insurance Total \$18.4 Million (Pages I-10,11 in prior report)

A review in one State disclosed that Federal programs were charged nine times the contribution rate of State-sponsored

programs for unemployment insurance. Auditors recommended that the State adjust the rate and that it refund \$18.4 million to the Federal government.

Status: The Department's resolution officials and Office of General Counsel requested that the auditors provide additional information to assist in the resolution of the finding. The auditors are in the process of obtaining the requested data.

b. Joint Administrative Costs of \$750,000 Inadequately Supported (Pages I-11,12 in prior report)

A review of administrative costs claimed by a State education agency under Title I disclosed that the State agency had not implemented necessary procedures to properly allocate and support joint administrative costs charged to the Title I program. Auditors recommended that the State refund \$750,000 in unsupported costs and implement an effective cost distribution system for allocating joint administrative costs.

Status: The State constructed and submitted documentation to support the costs questioned by the auditors. The Department's program officials requested that the auditors review the documentation. The requested review is in process.

c. \$1 Million in Title I Expenditures Overclaimed (Page I-12 in prior report)

An audit disclosed that a State Department of Education had significantly overstated expenditures on its Title I financial status reports. The auditors recommended that the State refund \$1 million to the Federal government.

Status: The Department's program officials concurred with the auditors' recommendation. The Office of General Counsel is currently reviewing the proposed resolution.

2. Vocational Education

a. \$11 Million in Lapsed Federal Funds Improperly Used (Page I-40 in prior report)

Audits disclosed that three States were unable to fully utilize funds allocated to them within the prescribed time period and that these unused funds have not always been returned to the government. Auditors recommended that a total of \$11 million be returned by the three States.

Status: In two of the three States involved, the Department upheld the auditors' position that lapsed funds were improperly used and requested refunds of \$3.7 million for periods which did not fall outside the statute of limitations. With respect to the third State, the Department has requested additional audit work prior to making a final determination on the \$6.2 million recommended recovery.

b. Up to \$27.9 Million in Lapsed and Misspent Funds Recommended for Recovery (Pages I-15,16 in prior report)

This review disclosed that a State made improper accounting adjustments to avoid returning unused funds of \$767,000 and that it had improperly used \$13.6 million of 1979 funds on 1980 projects and \$13.5 million of 1980 funds on 1981 projects. We recommended a number of procedural improvements to ensure more effective administration of the program and recommended that the State refund \$27.9 million.

Status: The resolution of the matters contained in this report is still under consideration by program officials.

- c. Deficiencies in State Management of Vocational Education Program Result in Recommended Recoveries of \$389,000 and a Recommended Fine of \$170,000 (Pages I-16,17 in prior report)

This review disclosed that Vocational Education funds were not always used for the purposes intended, and were not effectively administered and controlled. We recommended that the State refund \$389,000 and that the State be assessed a minimum penalty of \$170,000 because persons with limited English-speaking ability were not served as required.

Status: Program officials are still working on the resolution of issues contained in the report, and have asked the OIG to perform additional audit work to determine the amount of excess reimbursement claimed by the State as a result of their use of incorrect reimbursement rates. This work has been completed and disclosed that the State overclaimed \$360,000. Prompt resolution of this audit is expected after the State has been afforded an opportunity to comment on this additional recommended refund.

### 3. Student Financial Assistance

- a. Improvements Needed in State Guarantee Agency's Administration of Guaranteed Student Loan Program (Pages I-23,24 in prior report)

An audit of one State guarantee agency found that borrowers were charged excessive insurance premiums, default claims



were overstated and excessive interest was being billed to the Federal government. More importantly, our review disclosed that Federal funds of \$1.3 million advanced to the agency to assist in meeting defaulted student loan payments to lenders were no longer needed by the agency. We recommended that the agency take appropriate action to correct the conditions noted and that it consider returning those advances no longer needed.

Status: The institution has provided additional information to the program offices and has received an extension to review additional files and respond to the audit.

b. Deficiencies in School's Administration of Student Financial Assistance Programs (Pages I-24,25 in prior report)

The audit disclosed that the school's accounting records were inadequate, awards were made to ineligible students, documentation to support awards or disbursements to students was missing, and various regulations were not followed. We recommended that the school make financial adjustments of \$1.3 million or, in some instances, provide appropriate documentation. We also recommended that the school restore institutional funds to its National Direct Student Loan fund as appropriate.

Status: The school was given access to the working papers so that it could provide a reasonable and fair response to the report. The Department expects to receive a response shortly.

c. School Could Not Provide Adequate Documentation to Support Over a Million Dollars in Student Aid Fund Expenditures (Pages I-25,26 in prior report)

An audit of a proprietary school disclosed that internal controls were not adequate to ensure the funds were properly accounted for and used for purposes intended under program regulations. We recommended that the school refund \$1,072,300 to ED in accordance with the provisions of an existing Limitation Agreement between the school and ED.

Status: The school generally disagreed with the findings and recommendations. The school is now closed and has filed for bankruptcy. Claims against the school as a result of this audit will be handled in the bankruptcy proceeding.

d. Interest on National Direct Student Loan Improperly Credited to State's General Fund (Pages I-26,27 in prior report)

Interest in the amount of \$716,000 earned by a State on National Direct Student Loan funds from seven State universities was credited to the State's general fund instead of to the universities' National Direct Student Loan funds as required by Federal regulations. We recommended that the State repay to its National Direct Student Loan account the total amount of interest earned during and subsequent to the period of the audit and that it credit all future interest to the National Direct Student Loan account.

Status: The State agreed with the latter recommendation but it did not agree that the prior interest earned should be

repaid to the National Direct Student Loan account. The resolution of the matters contained in this report is still under consideration by Department officials.

e. \$665,000 Questioned or Disallowed Based on Deficiencies in Student Awards (Pages I-27,28 in prior report)

Our audit of a college disclosed a lack of documentation on student eligibility, disbursements in excess of amounts for which students were eligible, and unsatisfactory academic progress by students. We also found that the College Work-Study time records were not properly maintained to support the actual work effort and that Federal cash reported as held by the college was not always available in the Federal cash accounts. In addition to the recommended financial adjustments for disallowed or questioned costs of \$665,000, we made a number of procedural recommendations to improve the overall administration and control of the programs.

Status: The college has reconstructed its records and provided additional information to the program offices. This information is being reviewed.

f. Poor Cash Management Practices in Student Financial Aid Programs Resulted in Unnecessary Interest Costs of \$1.3 Million (Pages I-41,42 in prior report)

This audit disclosed that postsecondary schools in one region had excessive Federal cash on hand. We estimated that schools in this region in 1980 had \$11.6 million in excess cash, resulting in \$1.3 million in unnecessary interest costs to the Federal government. On a nationwide basis, excess cash may have totaled \$102 million and unnecessary

interest costs \$11.4 million in 1980. We recommended that ED management require schools to report excess cash balances immediately and return any excess cash and that the Department deny advance funding to those schools which persist in abusing Federal cash advances. We also recommended that the Department propose legislation to (1) provide a one-year authority to reuse National Direct Student Loan funds returned by schools and (2) require schools to pay interest on cash that is drawn in excess of current needs.

Status: ED officials generally agreed with our findings and recommendations and are now in the process of coordinating corrective action within the Department and with other Federal agencies to deal with this complex problem. The Department is also currently considering our recommendations with regard to proposed legislation.

g. College Work-Study and National Direct Student Loan Funds of \$960,000 Misused (Page I-42 in prior report)

An audit of a university's College Work-Study and National Direct Student Loan funds disclosed payments of \$675,000 to ineligible students for College Work-Study and improper use of funds from both programs for general operating expenses. We recommended that the university repay \$960,000 for the improper expenditures.

Status: Program officials have been working with the Office of General Counsel and the institution to resolve a prior finding in College Work-Study at the school that is similar to our finding in this audit. Its resolution will help resolve the recommendation in the above audit.

h. Improvements Needed in Regional Office Reviews of Institutions and Lenders Participating in Student Financial Assistance Programs (Pages I-29,30 in prior report)

Internal audits conducted in four regions disclosed that the effectiveness of institution and lender reviews could be significantly enhanced by taking actions such as improving methods used to select the entities for review, limiting the scope of reviews, improving timeliness and documentation of review results and taking prompt action to recover funds due.

Status: Responses from the four regional offices have been generally favorable. The report on Region II has been closed and Region III has taken or plans to take action on the most significant findings and recommendations. Actions on the reports in Regions IV and IX are still being considered.

4. Other Programs

a. Weaknesses in the Administration of Vocational Rehabilitation Program Result in Overclaim of \$1.2 Million (Pages I-19,20 in prior report)

This audit disclosed that there were significant deficiencies affecting the accuracy and reliability of financial data used by one State to report and claim costs under the program. The auditors recommended that the State refund \$1.2 million.

Status: A draft letter of determination on this audit has been prepared by the Department. We are currently working with program officials to determine an acceptable resolution of the findings.

b. Statewide Review Reveals Local Projects Not Meeting Bilingual Education Program Goals (Pages I-21,22 in prior report)

Audit work in the State agency and the local agencies that were reviewed disclosed generally that children were not being effectively served under the program and that projects did not improve the State and local efforts on an ongoing basis. The audit work also disclosed that the State did not adequately coordinate projects among the local districts. The auditors found an excessively high level of participation by students who were not classified as having limited proficiency in English and the failure to provide services to those for whom the Federal programs are targeted.

Status: Department officials have resolved our findings in three audits of local school districts and are working to resolve audits of the other four school districts and the State agency.

G. OTHER AUDIT MATTERS

1. Title I Court Decisions

We reported in our last semi-annual report (see pages I-45, 46) that two Federal circuit court decisions, each rendered in October 1981, could significantly affect ED's ability to recover funds misspent under Title I of the Elementary and Secondary Education Act. We further stated that the Department of Justice was considering at the end of the last reporting period whether to appeal the adverse decision rendered in one of the cases.

The Department of Justice subsequently decided to proceed with an appeal to the Supreme Court in this case. On October 4, 1982, the Supreme Court agreed to hear the case of Bell v. New Jersey (No. 81-2125). In presenting its grounds for appeal, the Justice Department stated that the case threatens the authority of a number of Federal agencies to recover unauthorized expenditures disclosed through audits.

2. Implementation of OMB Circular A-102, Attachment P

Implementation of the organization-wide audit concept continues to be a high OIG priority. We have taken significant actions in this area. Contacts have been made with the chief officials in each State department and agency for which the Department of Education has cognizancy responsibility in order to gather data on sources of Federal funding and explain the requirements of OMB Circular A-102, Attachment P. We have followed up these familiarization visits with presentations to subrecipients and non-Federal auditors on the requirements of the Circular. We have also made presentations to the Department's program staff at all levels and to State and local government national organizations.

During this reporting period, we systematically began to identify the efforts being made by each recipient to implement the A-102, Attachment P requirements and the status of such audits. We are also requesting information on the planned dates for submission to us of the A-102, Attachment P audit reports. To date, we have received six A-102, Attachment P audit reports (three of them this period).

The President's Council on Integrity and Efficiency has established a committee, co-chaired by the ED Inspector

General, to study and evaluate the implementation of Attachment P by the affected Federal departments and agencies. The evaluation will consider the impact and usefulness of the organization-wide audit. The study will also address other issues associated with the organization-wide audit concept. An evaluation approach has been determined and an evaluation team comprised of regional representatives from various Offices of Inspector General has been selected.

3. Implementation of OMB Circular A-110, Attachment F(h)

OMB Circular A-110 sets forth uniform administrative requirements for grants and agreements with institutions of higher education, hospitals, and other nonprofit organizations. Attachment F (h) of A-110 requires that an audit - usually on an organization-wide basis - be conducted not less frequently than every two years. The requirement is thus similar to the A-102 audit requirement for State and local governments.

During the past six months, implementation of this requirement has proceeded rapidly under the lead of the OIG in the Department of Health and Human Services (HHS) which has audit cognizance for the vast majority of the large institutions. We have worked closely with HHS concerning the impact of A-110 audits on the student financial aid and other ED programs and have provided the section of the A-110 audit guide setting forth audit requirements for the student aid programs.





CHAPTER II  
INVESTIGATION ACTIVITIES

A. INTRODUCTION

OIG investigations during this reporting period covered a broad spectrum of Departmental activities. Indictments were returned against the president of a college, a school district superintendent, a school owner, student beneficiaries and ED employees. The number of indictments and informations increased from 24 during the prior reporting period to 105 during this period. The number of convictions or guilty pleas during this period increased from 34 to 37.

The following sections present an overview of the investigative activities during this reporting period and an update of significant cases previously reported along with workload statistics, investigative accomplishments and highlights of cases.

B. INVESTIGATION ACCOMPLISHMENTS

At the close of this period, 32 defendants had been sentenced to incarceration, probation, or accepted for pretrial diversion, 12 were awaiting sentencing, and 12 were in a fugitive status. In addition, assessed fines and restitutions resulting from our investigations totaled \$124,000. These and other accomplishments achieved during this six-month period are shown in the following schedule.

COMPARATIVE SCHEDULE OF INVESTIGATION  
OUTPUT/PERFORMANCE MEASURES

|                                   | <u>The Six-Month Periods Ending:</u> |                | <u>FY 82</u>  |
|-----------------------------------|--------------------------------------|----------------|---------------|
|                                   | <u>3/31/82</u>                       | <u>9/30/82</u> | <u>Totals</u> |
| Cases Opened                      | 119                                  | 205            | 324           |
| Cases Closed                      | 101                                  | 138            | 239           |
| Cases Referred for<br>Prosecution | 57                                   | 154            | 211           |
| Cases Accepted                    | 36                                   | 120            | 156           |
| Cases Declined                    | 21                                   | 34             | 55            |
| Indictments/<br>Informations      | 24                                   | 105            | 129           |
| Convictions/Pleas                 | 34                                   | 37             | 71            |
| Restitutions and Fines            | *\$3,932,000                         | \$124,000      | \$4,056,000   |
| Cost Avoidance                    | -                                    | \$190,000      | \$ 190,000    |

\*Includes a single restitution in the amount of \$3,750,000

Another accomplishment this period involved the role played by the OIG in assuring that ineligible alien cases were considered for prosecution to the maximum extent possible. Some of the ineligible alien cases involved dollar amounts which were below the range of acceptance for prosecution by U.S. Attorneys in large urban areas. Because of this, the OIG helped formulate an agreement involving the U.S. Attorney, a State Attorney General, and local prosecutors serving a major urban area, dividing the cases based on the amount of money involved in the violations. The agreement

is beneficial because each prosecutor's office receives cases large enough to warrant its attention. It is the policy of the OIG to present cases to State or local prosecutors when Federal prosecutors decline prosecution because of insufficient monetary amounts.

During the period, we also signed a Memorandum of Understanding between the OIG and FBI. This agreement formalizes the areas of responsibility shared by the two agencies. The agreement will further enhance the excellent cooperation the OIG has enjoyed with the FBI since our inception in 1980.

C. INVESTIGATION WORKLOAD ANALYSES

Following is summary data on the number of cases opened, closed, and active for the period April 1, 1982 through September 30, 1982.

|                                 |     |
|---------------------------------|-----|
| Cases active March 31, 1982     | 292 |
| Cases opened this period        | 205 |
| Cases closed this period        | 138 |
| Cases active September 30, 1982 | 359 |

The cases opened during this period have been analyzed to show:

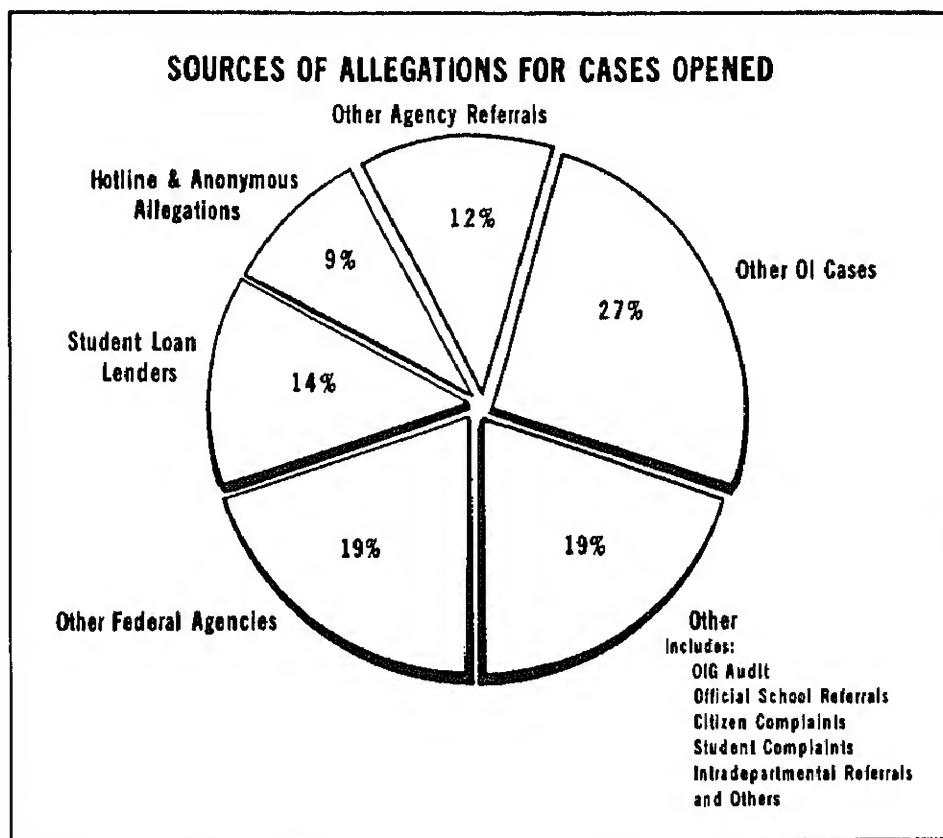
- o program areas which generate cases;
- o patterns of alleged criminal violations; and
- o major sources of allegations.

During the current reporting period, 78 percent of the 205 cases opened involved one or more of the Student Financial Assistance programs. This is an increase of two percent over the prior reporting period. Of the remaining cases, 13 percent involved other ED programs and nine percent of the total involved employee misconduct cases. The following chart shows the incidence of possible violations among the 205 cases initiated during this period (most cases involve several possible violations).

#### ALLEGED CRIMINAL VIOLATIONS

| <u>Description</u>  | <u>Number of Cases<br/>in which Alleged</u> |
|---|---|
| False statements  | 106   |
| Student financial aid fraud   | 98  |
| Fraud using the U.S. Mails, telephone,<br>telegraph or false names or addresses | 69  |
| Other Federal statutory violations  | 53  |
| Embezzlement and failure to<br>account for public funds                         | 27  |
| State or local statutory violations   | 21  |
| Bank fraud-credit information   | 19  |
| Conspiracy to defraud the U.S.  | 15  |
| False claims and demands for<br>payment of public funds                         | 8   |
| Bribery of a public official and<br>conflict of interest                        | 4   |

OIG receives allegations from various sources which lead to the initiation of investigations. Following is a breakdown of OIG cases initiated during the period by source of allegation.



#### D. HIGHLIGHTS OF SIGNIFICANT INVESTIGATIONS

This section provides highlights of our investigative activity this period, an update of investigations highlighted in the prior semi-annual report, and a discussion of matters referred to Departmental officials for administrative action.

##### 1. Ineligible Alien Project

During this period ED-OIG played a major role in initiating a nationwide effort to identify, investigate and prosecute ineligible aliens who fraudulently receive student aid.

A group of 27 criminal prosecutions in the District of Rhode Island involving aliens who have fraudulently obtained Federal student financial assistance (highlighted in our two prior semi-annual reports) alerted the OIG to a potential widespread abuse of the student aid programs. The OIG, along with the Immigration and Naturalization Service and the Department of Justice Criminal Division, initiated a nationwide effort to determine if the type of abuse uncovered in Rhode Island was pervasive nationwide and to identify, investigate and prosecute flagrant student loan and grant cheaters. Thus far, this continuing joint initiative has resulted in the indictment of 92 aliens (including the 27 in Rhode Island) for fraudulently receiving various forms of Federal student financial assistance by either falsely claiming U.S. citizenship or falsely claiming to be in one of the eligible alien categories. In addition to the Rhode Island case, indictments have also been handed down in Connecticut (23 indictments), New York (16 indictments), Illinois (14 indictments), Colorado (10 indictments), and Kansas (2 indictments). The Connecticut case discussed below is illustrative of alien cases in process or completed this period.

- o In September, 23 aliens were indicted by a Federal grand jury in Connecticut for illegally receiving nearly \$80,000 in Pell grants and guaranteed student loans. The aliens obtained the loans from six different lenders and used them along with the grants to attend 14 different schools. Thirteen of those charged have been arrested and ten are fugitives.

2. Other Cases Successfully Prosecuted or Accepted by U.S. Attorney

- o In September, an individual was sentenced in U.S. District Court to one year's imprisonment (later suspended) and two years' probation, and directed to make restitution of \$4,600 in fraudulently obtained Guaranteed Student Loan (GSL) and College Work-Study (CWS) funds. The sentence came after a plea agreement in which the individual agreed to plead guilty to 19 counts of false statements in connection with a scheme to defraud the CWS program. Three counts of the indictment relating to misrepresentations on GSL applications were dismissed. This person obtained a loan for \$2,500 to attend a cosmetology school while already enrolled as a full-time student at a university where she had received another \$2,500 loan. In addition, the individual collected over \$2,000 in CWS wages by presenting falsified weekly time cards to the university claiming wages for hours while actually in attendance at the cosmetology school.
- o In July 1982, a husband and wife were indicted by a Federal grand jury for submitting falsified applications and documents for student financial assistance. The single indictment charged the husband with ten counts of false statements and his wife with eight counts. The husband used two social security numbers to obtain concurrently two Pell grants for the maximum allowable amount from two colleges. In all, the couple received over \$7,000 in financial aid by falsifying data concerning financial assets, marital and academic status. The couple remain in a fugitive status.



- o In July 1982, an individual was sentenced to five years' imprisonment after pleading guilty to charges of mail fraud and making false statements. This person operated a student counseling service which, for a fee of \$30 per student, coached and assisted the students in preparing fraudulent Pell grant applications. The investigation established that this person assisted in the preparation and submission of over \$30,000 in fraudulent applications.
- o In August 1982, a Federal grand jury indicted five defendants variously with 24 counts of vote buying, election fraud, conspiracy, mail fraud, false statements and misapplication of Federal school program funds. The superintendent of a county school district and school principal were indicted, together with three other individuals. The indictments focused on three schools in the county system. A prosecutor from the Department of Justice in Washington, D.C., is leading the joint OIG/FBI effort.
- o On May 1982, a U.S. Attorney filed information charges against four men regarding a scheme to defraud the Pell Grant program. One of those charged was the ringleader in the scheme to prepare false applications for a fee on behalf of other students who would not be eligible to receive the grants were truthful information provided. The four have now pleaded guilty. The three assistants have been sentenced to suspended prison terms, long periods of probation and community service.
- o In August 1982, a Special Federal grand jury returned a 12-count indictment against a former college president and two college officials. The subjects have been charged with embezzlement, making false statements on reports to the U.S. Department of Education and conspiracy. A trial date is pending. This case was a joint OIG/FBI investigation. As a direct result of this investigation, \$190,000 in additional funding to the school was suspended. The investigation also supported a claim for the return of another \$210,000.

- o In July 1982, a college president was indicted on 30 counts of embezzlement, mail fraud, false statements and aiding and abetting. The indictment charged the defendant with misuse of Federal funds in student financial assistance and National Science Foundation programs. Trial is set for November 1982. The indictment is the culmination of a multi-year joint OIG/FBI investigation.
- o In September 1982, a Federal grand jury returned a 55-count indictment against the owner/operator of a beauty academy. The indictment charges the owner/operator with mail fraud, making false statements to the Department of Education, and conversion of government funds. The defendant is alleged to have misappropriated over \$150,000 in Pell grant funds as part of the fraudulent scheme. The indictment resulted from a joint investigation conducted by the OIG and the FBI.
- o In July 1982, a student borrower was sentenced to pay a fine of \$5,000, repay \$1,000 in fees for a court-appointed defense attorney and serve a five-year probationary period. The student had applied for five guaranteed student loans to cover the same school period and received \$15,000. OIG special agents were able to block the disbursement of an additional \$5,000.
- o In August 1982, an individual was the subject of a 34-count indictment, two counts of which were for defrauding the student financial aid programs. The subject used multiple names and social security numbers to obtain approximately \$25,000 in benefits. A trial date has not yet been established.

### 3. Employee Cases and Matters Referred for Administrative Action

Matters involving employees of the Department of Education are regarded as top priority by the OIG. Violation of the criminal laws and abuses of the Code of Conduct and administrative rules affect the overall efficiency, morale and integrity of the entire Department. The following completed investigations fall into this category.

- o In September 1982, a former ED employee pleaded guilty to embezzlement. The subject forged the payees' signatures on 24 treasury checks placed in the subject's care for distribution. As a result, \$4,800 was embezzled over a one-and-one-half year period. Sentencing has been tentatively set for November 1982.
- o In September 1982, a former ED employee was sentenced to one year of supervised probation for making false statements in connection with change of station travel. The subject claimed reimbursement for dependent travel not performed and motel accommodations not actually utilized. Prior to sentencing, the subject voluntarily terminated employment and reimbursed approximately \$3,100 to the Department of Education. This case resulted from an OIG Hotline complaint.
- o In September 1982, an ED employee was dismissed as a result of local criminal violations and misuse of personal credit information belonging to fellow employees. We established that the subject prepared false Department of Education identification cards and used them to establish credit with department stores and bank credit cards. The results of the OIG investigation were referred to local police for further investigation.

#### 4. Update of Previously Reported Investigations

Our last semi-annual report highlighted several investigations which have been concluded with the following results.

- o Two principal officers and operators of a chain of several proprietary schools were sentenced in Federal District Court after entering separate pleas to an 18-count indictment charging them with mail fraud and making false statements. The first official pleaded guilty to two counts of false statements and was sentenced to serve four months in a work release program and five years' probation. The second official pleaded nolo contendere to two counts of false statements and was sentenced to two years' imprisonment, five years' probation consecutively with the imprisonment, and fined a total of \$20,000. From 1976 through 1979, the pair engaged in a scheme to improperly disburse approximately \$800,000 in Pell grant monies advanced to the schools.

- o The former director of a proprietary school pleaded guilty to one count of theft of government property and four counts of student financial assistance fraud. The subject was sentenced in June to serve two consecutive one-year terms of imprisonment, three years' probation commencing upon release from confinement and ordered to make restitution of \$41,500 plus interest.
- o In June, a former official of a large corporation was sentenced to a three-year term in prison. The official was found guilty of falsifying default claims in the Federally Insured Student Loan program. A co-defendant was found innocent of similar charges at the same trial. The parent corporation pleaded guilty in earlier proceedings and paid fines and restitution of \$31,000 and \$3.75 million respectively.
- o An ED headquarters employee, who had previously pleaded guilty to a one-count misdemeanor for student financial assistance fraud, was sentenced in April 1982, by a U.S. Magistrate to 12 months in jail with 11 months suspended and 30 days to be served on 15 weekends. The employee was also given five years' probation and ordered to make restitution of approximately \$3,000 in student financial aid funds. Separate administrative action has resulted in the termination of this employee based upon his submission of several falsified Personal Qualifications Statements.
- o We continued our investigation of a matter reported in the two most recent semi-annual reports. A ring of family members conspired to defraud the Guaranteed Student Loan program by falsifying loan applications and receiving loan funds in three States. In two of the States, 11 guilty pleas have been received to date.

Even as the legal process was underway in the two States, the ring was at work in a neighboring State applying for and receiving additional student loans. The OIG worked quickly to suspend further loans to the ring members and to alert State officials of the known names and social security numbers used by the members. Two members of the family, including the leader, have been convicted in recent jury trials in that State.

- o A former bank loan officer was sentenced in U.S. District Court in July 1982 to five years' imprisonment and fined \$3,000. He had previously pleaded guilty to one count of embezzlement after being indicted by a Federal grand jury for approving about \$9,200 in fraudulent guaranteed student loans and diverting the proceeds to his personal use.
- o In April 1982, a former co-owner of a cosmetology school pleaded guilty to one count of making false statements in connection with fraudulently obtaining more than \$25,000 in Title IV student aid funds. Subsequently, the individual was sentenced in U.S. District Court to five years' imprisonment with two months to be served in a local county jail and the remainder suspended. In addition, the individual was directed to perform 200 hours of community service as a condition of probation.
- o An individual who had pleaded guilty to embezzlement in connection with a scheme to fraudulently obtain Pell grants and guaranteed student loans was sentenced in April 1982 to two years' probation and ordered to perform 200 hours of community service. Also, a former school official who assisted in the scheme was sentenced in June to serve 90 days in a correction center, placed on three years' probation, and ordered to make restitution of \$1,200.
- o An individual was sentenced in July 1982, in U.S. District Court, to one year in prison and two years' probation. Nine months of the sentence was suspended. The individual, a former College Work-Study employee in a university's financial aid office, previously pleaded guilty to one felony count each of mail fraud and bank fraud. Using an alias and a fictitious social security number, the individual had attempted to obtain a \$2,000 guaranteed student loan from a local savings bank.

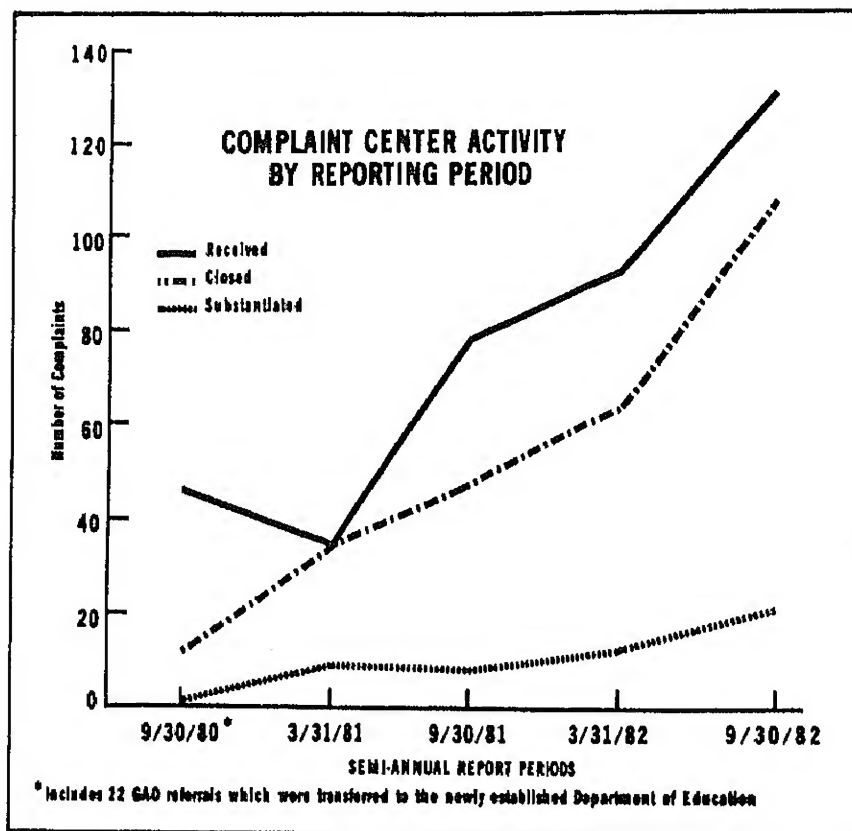
CHAPTER III  
FRAUD CONTROL ACTIVITIES

A. INTRODUCTION

The OIG was active in a number of fraud control areas during this period. The number of complaints and allegations received through the OIG Hotline on possible fraud, waste and abuse in Education programs continued to increase. We also assisted ED management in performing a review of internal controls, participated in a review by the President's Council on Integrity and Efficiency on standards of conduct in use by Federal agencies and is working closely with the Department in implementing the requirements of OMB Circular A-123.

B. COMPLAINT CENTER

During this reporting period, we received a total of 130 complaints, including 30 referred by the General Accounting Office. Since establishing the OIG Hotline, we have received 380 complaints, 102 of which were referred by GAO. To date, a total of 262 of these complaints have been closed and 51, or about 20 percent, of those closed were substantiated. During this period, of 107 complaints closed, 21 were substantiated and resulted in corrective action by the Department. The graph below depicts Hotline activity by reporting period since inception.



As in prior periods, the largest category of complaints received involved student financial assistance programs. However, the largest category of substantiated complaints concerned allegations of misconduct by Department employees. The status of complaints received, by major category, follows.

| <u>Status of Complaints Received</u> |                                       |                                   |                                 |                               |                                |                                   |
|--------------------------------------|---------------------------------------|-----------------------------------|---------------------------------|-------------------------------|--------------------------------|-----------------------------------|
| <u>Nature of Complaint</u>           | <u>Total<br/>Received<br/>To Date</u> | <u>Open as<br/>of<br/>3/31/82</u> | <u>Received<br/>This Period</u> | <u>Closed<br/>This Period</u> | <u>Total<br/>Substantiated</u> | <u>Open as<br/>of<br/>9/30/82</u> |
| Student Financial Assistance         | 115                                   | 36                                | 40                              | 38                            | 8                              | 38                                |
| Grants/Contracts                     | 89                                    | 27                                | 29                              | 16                            | 12                             | 40                                |
| Employee Misconduct                  | 63                                    | 13                                | 25                              | 20                            | 15                             | 18                                |
| Administrative                       | 46                                    | 7                                 | 11                              | 10                            | 10                             | 8                                 |
| Travel/Misc. Expense Funds           | 37                                    | 9                                 | 14                              | 15                            | 5                              | 8                                 |
| Other                                | <u>30</u>                             | <u>3</u>                          | <u>11</u>                       | <u>8</u>                      | <u>1</u>                       | <u>6</u>                          |
| TOTALS                               | <u>380</u>                            | <u>95</u>                         | <u>130</u>                      | <u>107</u>                    | <u>51</u>                      | <u>118</u>                        |

The Department has taken appropriate administrative or disciplinary action on substantiated complaints, and actual or potential recoveries of misspent Education funds attributable to Hotline complaints have amounted to approximately \$230,000 to date. Recoveries of approximately \$15,000 have been effected during this reporting period. Following are two examples of substantiated complaints.

- o A Hotline complaint alleged that a Department employee consistently arrived late in the morning and left the office early every afternoon, without being charged leave for time absent. It was further alleged that the practice had continued over a number of years, despite admonishments by



supervisors. OIG investigators substantiated that the employee's average workday was significantly less than the required eight hours. As a result, the employee was suspended without pay for a significant period of time and leave balances were reduced for documented abuses.

- o In another complaint received on the Hotline it was alleged that an individual was receiving Pell Grant funds but had ceased to attend classes. OIG inquiry, in cooperation with local law enforcement authorities, substantiated the allegation and determined that the individual had fraudulently received \$1,700 in grant funds. The student immediately repaid the full amount. The institution opted not to press charges and Federal prosecution was declined.

#### C. OTHER ACTIVITIES

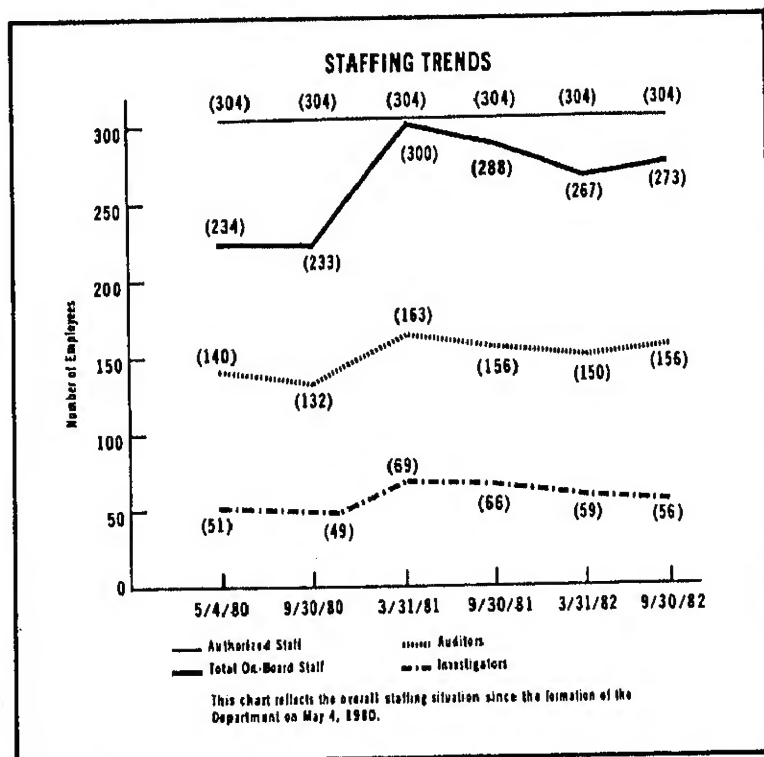
The Office of Fraud Control was involved this period in a number of other initiatives designed to improve management and reduce the potential for fraud in ED programs. We assisted the Department's Committee on Fraud, Waste and Mismanagement in a pilot project to review and evaluate the effectiveness of internal controls at the National Institute of Education. We were also given lead responsibility by the President's Council on Integrity and Efficiency for conducting a project to review and assess standards of conduct in use by Federal agencies. The review, which was completed in June 1982, also reported on agencies' efforts to educate employees in standards of conduct.

The OIG is also working closely with ED management in implementing OMB's Circular A-123 on Internal Control Systems. Coordinating this entire project within ED is the A-123 Task Force which reports to the Deputy Under Secretary for Management. The IG has detailed the Director, Office of Fraud Control to assist the Task Force in assuring prompt implementation of the A-123 requirements.

CHAPTER IV  
OTHER MATTERS

A. STAFFING AND BUDGETARY CONSTRAINTS

Since its inception, OIG has been working under a full-time equivalent personnel ceiling of 304 positions. Of the 304 authorized positions, 273 were filled as of September 30, 1982 (see chart below). While this represents a small increase in on-board staff from the 267 reported as of March 31, 1982, we operated during most of this six-month period with fewer staff. In fact as of September 1, 1982 our on-board staff hit a low of 259, reflecting a total of 45 vacancies. It was not until mid-September, following passage of the Supplemental Appropriations Bill, that we were able to bring on 14 additional staff raising the total to 273 positions.



As we indicated in our last semi-annual report, budgetary constraints during the period had a significant effect on productivity. Similar constraints affected our productivity during this period as well. For example, we had to terminate reimbursable agreements to have grant and contract audits performed for us, and had to curtail many of the audits which we had planned to accomplish this period.

B. REVIEW OF LEGISLATION AND REGULATIONS

The Inspector General Act of 1978 (Public Law 95-452), Section 4(a)(2), requires Inspectors General to review existing and proposed legislation and regulations relating to programs and operations of their Departments or agencies. Reviews are conducted to determine the impact of such legislation and regulations on the economy and efficiency of programs and operations financed by the Department and on the prevention and detection of fraud and abuse in these programs and operations. During this period, we reviewed 60 pieces of legislation and 50 proposed regulations. These include regulations implementing Chapters 1 and 2 of the Education Consolidation and Improvement Act.

In response to the Chapter 1 and Chapter 2 regulations proposed by the Department, we recommended several changes that either have been incorporated or are being considered for incorporation by the Department.

C. PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

We are participating in a number of interagency projects and committees initiated by the President's Council on Integrity and Efficiency which involve Government-wide efforts. A listing of the projects and committees in which we are

engaged follows. Several of these projects are discussed in other sections of the report.

- o Performance Evaluation Committee
- o Standards of Conduct Committee
- o Property Held by Contractors and Grantees
- o Small Business Administration 8(a) Eligibility Verification Project
- o Long-Term Computer Match Project
- o A-102, P Evaluation Project
- o Computer Audit Study

D. SUBPOENAS ISSUED

The Inspector General is authorized to issue administrative subpoenas to require the production of information necessary for the performance of mandated responsibilities. During this reporting period, two administrative subpoenas were issued. There were also two subpoenas issued during the prior reporting period.

E. GENERAL ACCOUNTING OFFICE REPORTS

The OIG is the main receipt and control point for reports issued by the General Accounting Office, and is responsible for ensuring that they receive proper and expeditious handling. After the reports are processed, promised remedial actions are tracked to assure completion. This follow-up function is in the process of being transferred to the Office of Management.

In addition, the OIG maintains continuous liaison with the General Accounting Office in order to keep informed of its

activities within ED and thereby minimize potential for overlap in coverage.

During this reporting period, we received 12 General Accounting Office reports requiring comment or corrective action by the Department. Of these, five were draft reports and seven were published reports. The Department responded to two of the five draft reports on time, but the remaining three were late. Of the seven published reports, one of the four responses completed was on time. The Department's response to one of the three remaining reports is late, while two responses are not yet due.

F. REFUSAL OF INFORMATION

During this period, the OIG has received support from top Departmental management and has not been unreasonably refused or denied information or assistance.

REPORTING REQUIREMENTS

The specific reporting requirements as prescribed in the Inspector General Act of 1978 are listed below.

| <u>SOURCE</u>   | <u>LOCATION IN REPORT</u> |
|---|---------------------------|
| <u>INSPECTOR GENERAL ACT</u>  |                           |
| Section 4(a)(2) -- Review of<br>Legislation and Regulations   | Page IV-2                 |
| Section 5(a)(1) -- Significant<br>Problems, Abuses, and<br>Deficiencies                                     | Page I-5<br>Page II-6     |
| Section 5(a)(2) -- Recommenda-<br>tions with Respect to<br>Significant Problems, Abuses<br>and Deficiencies | Page I-5                  |
| Section 5(a)(3) -- Prior<br>Significant Recommendations<br>Not Yet Implemented                              | Page I-28                 |
| Section 5(a)(4) -- Matters<br>Referred to Prosecutive<br>Authorities  | Page II-1                 |
| Section 5(a)(5) and 6(b)(2) --<br>Summary of Instances Where<br>Information was Refused                     | Page IV-4                 |
| Section 5(a)(6) -- Listing of<br>Audit Reports  | Page V-2                  |

Federal Audits of Education Department Programs  
April 1, 1982 through September 30, 1982

Section 5(a)(6) of the Inspector General Act requires a listing of each audit report completed by OIG during the reporting period. A total of 166 audit reports were completed by Federal auditors, 101 with audit findings and 65 without findings. These reports are listed below:

A. Audit Reports With Findings

| <u>Number</u> | <u>Auditee and State</u>   | <u>Date Issued</u> |
|---------------|--|--------------------|
| 01-20000      | Vermont Department of Education, VT                              | 04/82              |
| 01-20103      | Connecticut Bank and Trust, CT                                   | 07/82              |
| 01-20104      | Massachusetts Higher Education Assistance Corporation, MA        | 06/82              |
| 01-20105      | Vermont Department of Education, VT                              | 04/82              |
| 01-20106      | Bay Bank, Middlesex, MA  | 03/82              |
| 01-20107      | Shawmut Bank of Boston, MA                                       | 03/82              |
| 01-21203      | Curry College, MA  | 06/82              |
| 01-21451      | Education Development Center, MA                                 | 03/82              |
| 01-23326      | Federation for Children With Special Needs, MA                   | 07/82              |
| 01-23327      | Massachusetts Executive Committee for Educational Television, MA | 09/82              |
| 01-23328      | Solve, Inc., NH  | 06/82              |
| 01-23329      | Center for the Study of Public Policy, MA                        | 07/82              |
| 01-23332      | Management Analysis Center, MA                                   | 09/82              |
| 01-23333      | Beverly and Boston Schools for the Deaf, MA                      | 09/82              |
| 02-20103      | New Jersey Vocational Education, NJ                              | 08/82              |
| 02-21201      | United Student Aid Funds, NY                                     | 08/82              |
| 02-21358      | First School of Secretarial and Paralegal Studies, NJ            | 05/82              |
| 02-21700      | Jersey City State College, NJ                                    | 04/82              |
| 02-21800      | Center for Resource Management, Inc., NY                         | 04/82              |
| 02-23400      | PTV Production, Inc., NY   | 07/82              |
| 02-23403      | Mayor's Community Board Assistance Unit, NY                      | 09/82              |
| 02-23406      | Church of the Master, NY   | 09/82              |
| 02-23411      | Center for Resource Management, NY                               | 09/82              |
| 02-24054      | Educational Testing Service, NJ                                  | 06/82              |
| 02-24056      | Educational Testing Service, NJ                                  | 04/82              |
| 02-24057      | Educational Testing Service, NJ                                  | 04/82              |
| 03-20001      | Harrisburg School District, PA                                   | 07/82              |
| 03-20003      | Philadelphia School District, PA                                 | 09/82              |
| 03-20101      | Maryland Vocational Education, MD                                | 05/82              |
| 03-21000      | Philadelphia School of Office Training, PA                       | 07/82              |
| 03-21200      | Duff's Iron City Business Institute, PA                          | 08/82              |
| 03-21803      | DBS Corporation, VA  | 06/82              |
| 03-23442      | DBS Corporation, VA  | 06/82              |
| 03-23443      | DBS Corporation, VA  | 06/82              |

|          |  |       |
|----------|--|-------|
| 03-24005 | Pennsylvania Department of Public Welfare, PA                              | 07/82 |
| 03-24006 | Killalea Associates, VA  | 09/82 |
| 04-20003 | Georgia Department of Education, GA  | 06/82 |
| 04-20004 | Tennessee Department of Education, TN                                      | 09/82 |
| 04-21206 | Memphis School of Commerce, TN   | 04/82 |
| 04-21211 | DeVry Institute of Technology, GA  | 09/82 |
| 04-21507 | Nashville College of Medical and Dental Assistants, TN                     | 06/82 |
| 04-23534 | Exodus, Inc., GA   | 09/82 |
| 04-23535 | Exodus, Inc., GA   | 09/82 |
| 04-23536 | City of Atlanta, GA  | 09/82 |
| 05-20012 | Springfield School District #186, IL                                       | 09/82 |
| 05-20100 | Illinois State Board of Education, IL                                      | 05/82 |
| 05-20101 | Indiana Department of Public Instruction, IN                               | 08/82 |
| 05-20112 | Handicapped Child Count, IN  | 08/82 |
| 05-20115 | Indiana State Library, IN  | 05/82 |
| 05-20121 | Illinois State Board of Education, IL                                      | 07/82 |
| 05-20556 | Review of Vocational Rehabilitation, IL                                    | 06/82 |
| 05-21219 | Alma's Beauty College, MI  | 04/82 |
| 05-21221 | St. Augustine Community College, IL  | 04/82 |
| 05-21224 | Minneapolis Community College, MN  | 05/82 |
| 05-23593 | Indiana Department of Public Instruction, IN                               | 04/82 |
| 05-23594 | Indiana Department of Public Instruction, IN                               | 06/82 |
| 05-23596 | Michigan Department of Education, MI                                       | 04/82 |
| 05-23597 | Michigan Department of Education, MI                                       | 04/82 |
| 05-23598 | Indiana Department of Public Instruction, IN                               | 05/82 |
| 05-23599 | Governors State University, IL   | 05/82 |
| 05-23601 | Wayne State University, MI   | 07/82 |
| 05-24254 | University of Wisconsin at Madison, WI                                     | 04/82 |
| 06-20113 | Louisiana Department of Education, LA                                      | 09/82 |
| 06-20117 | Jefferson Parish School Board, LA  | 09/82 |
| 06-21000 | Laredo Junior College, TX  | 09/82 |
| 06-23670 | Educational Innovators, Inc., TX   | 09/82 |
| 07-21201 | Platt College, MO  | 07/82 |
| 07-23770 | CEMREL, Inc., MO   | 09/82 |
| 07-23778 | CEMREL, Inc., MO   | 07/82 |
| 08-20000 | Colorado Department of Education, CO                                       | 06/82 |
| 08-20100 | Colorado State Board for Community Colleges and Occupational Education, CO | 04/82 |
| 08-20101 | Utah State Board of Education, UT  | 06/82 |
| 08-20104 | South Dakota Department of Education and Cultural Affairs, SD              | 09/82 |
| 08-20109 | Harrison School District, CO   | 06/82 |
| 08-21451 | Education Commission of the States, CO                                     | 09/82 |
| 08-23847 | Great Falls Public School, MT  | 04/82 |
| 08-23850 | Utah State Board of Education, UT  | 04/82 |
| 08-23853 | Jefferson City Schools, CO   | 04/82 |
| 08-23854 | Northern Colorado Educational Board of Cooperative Services, CO            | 04/82 |
| 08-23855 | Social Science Education Consortium, Inc., CO                              | 05/82 |
| 08-23856 | National Center for Higher Education Management Systems, CO                | 05/82 |



Appendix 2  
3 of 5

|          |  |       |
|----------|--|-------|
| 08-23861 | Education Commission of the States, CO                                       | 08/82 |
| 08-23862 | Education Commission of the States, CO                                       | 08/82 |
| 09-20008 | California State Department of Education, CA                                 | 07/82 |
| 09-20502 | Oakland Unified School District, CA  | 05/82 |
| 09-20652 | California Department of Rehabilitation, CA                                  | 04/82 |
| 09-21001 | D-Q University, CA   | 04/82 |
| 09-21206 | Crocker National Bank, CA  | 05/82 |
| 09-21208 | San Francisco State University, CA   | 07/82 |
| 09-21209 | University of San Francisco, CA  | 09/82 |
| 09-21210 | Crocker National Bank, CA  | 08/82 |
| 10-20009 | Pasco School District, WA  | 08/82 |
| 10-21001 | Marylhurst Education Center, OR  | 08/82 |
| 11-23016 | Review of NIE Conferences Need, Impact and Management, D.C.                  | 09/82 |
| 11-23022 | NIE's Administration of Its Imprest Fund and Travel Advances, D.C.           | 09/82 |
| 11-23024 | Review of Year End Spending for Fiscal Year 1981, D.C.                       | 08/82 |
| 11-23030 | Guarantee Agencies Reserves--Federal Advances No Longer Needed, D.C.         | 07/82 |
| 11-23034 | Selected Travel Reimbursements to NIE Employees, D.C.                        | 05/82 |
| 11-23036 | Control Over Expenditure Offsets Which Result from Audit Disallowances, D.C. | 08/82 |
| 11-23042 | Review of Year End Spending at NIE for Fiscal Year 1981, D.C.                | 07/82 |
| 12-24135 | IBM Corporation, MD  | 04/82 |

B. Audit Reports Without Findings

|          |   |       |
|----------|---|-------|
| 01-23322 | National Theatre of the Deaf, CT  | 04/82 |
| 01-23325 | Federation for Children With Special Needs, MA                                | 06/82 |
| 01-23330 | C.M. Leinwand Associates, Inc., MA  | 07/82 |
| 01-23331 | C.M. Leinwand Associates, Inc., MA  | 07/82 |
| 01-24001 | University of Connecticut Health Center, CT                                   | 06/82 |
| 01-24002 | ABT Associates, MA  | 06/82 |
| 01-24003 | Yale University, CT   | 07/82 |
| 01-24004 | Tufts University, MA  | 08/82 |
| 01-24005 | ABT Associates, MA  | 08/82 |
| 02-23401 | Community Service Society, NY   | 04/82 |
| 02-23407 | Boone Young and Associates, NY  | 09/82 |
| 02-24051 | Educational Testing Service, NJ   | 05/82 |
| 02-24052 | Educational Testing Service, NJ   | 04/82 |
| 02-24053 | Educational Testing Service, NJ   | 04/82 |
| 02-24055 | Educational Testing Service, NJ   | 04/82 |
| 03-20104 | Handicapped Child Count, MD   | 04/82 |
| 03-23441 | American Alliance for Health, Physical<br>Education, Recreation and Dance, VA | 04/82 |
| 03-23461 | Computer Network Corporation, D.C.  | 09/82 |
| 03-23463 | Development Associates, Inc., VA  | 09/82 |
| 03-24001 | Applied Management Sciences, MD   | 06/82 |
| 03-24002 | American Institute for Research, D.C.   | 06/82 |
| 03-24003 | VSE Corporation, VA   | 06/82 |
| 03-24004 | VSE Corporation, VA   | 07/82 |
| 03-24007 | Applied Management Sciences, MD   | 09/82 |
| 03-24009 | Arthur Young and Company, D.C.  | 09/82 |
| 03-24010 | Social and Scientific Systems, D.C.   | 09/82 |
| 04-23538 | Research Evaluation Associates, Inc., NC                                      | 09/82 |
| 04-24000 | Meharry Medical College, TN   | 06/82 |
| 05-20011 | Indiana Department of Public Instruction, IN                                  | 07/82 |
| 05-20119 | Midwest Regional Center, IL   | 03/82 |
| 05-21222 | Michigan State University, MI   | 05/82 |
| 05-21225 | Guaranteed Student Loan Program Lenders<br>and Schools, IL                    | 07/82 |
| 05-21227 | Marion College, IN  | 09/82 |
| 05-21228 | Marion College, IN  | 09/82 |
| 05-21231 | Lincoln Christian College, IL   | 08/82 |
| 05-21232 | Marion College, IN  | 09/82 |
| 05-21235 | ITT Technical Business Institute, IN  | 09/82 |
| 05-21301 | Wayne State University, MI  | 09/82 |
| 05-23588 | Northwest Educational Cooperative, IL   | 05/82 |
| 05-23600 | National Opinion Research Center, IL  | 07/82 |
| 05-23602 | BRASS Foundation, Inc., IL  | 07/82 |
| 05-24255 | Kent State University, OH   | 05/82 |
| 05-24256 | University of Chicago, IL   | 09/82 |
| 06-20118 | Evangeline Parish School, LA  | 07/82 |
| 06-20601 | Texas Education Agency, TX  | 09/82 |
| 06-23668 | Migrant Student Record Transfer System, AR                                    | 06/82 |
| 06-24001 | University of Texas, TX   | 04/82 |
| 07-23779 | Blue Hills Home Corporation, MO   | 07/82 |

Appendix 2  
5 of 5

|          |  |       |
|----------|--|-------|
| 07-23781 | Kansas State Department of Education, KS                         | 09/82 |
| 08-23857 | National Center for Higher Education<br>Management Systems, CO   | 05/82 |
| 08-23858 | National Center for Higher Education<br>Management Systems, CO   | 05/82 |
| 08-23859 | National Center for Higher Education<br>Management Systems, CO   | 05/82 |
| 08-23860 | Education Commission of the States, CO                           | 08/82 |
| 08-23863 | Education Commission of the States, CO                           | 08/82 |
| 08-24000 | South Dakota Department of Education and<br>Cultural Affairs, SD | 04/82 |
| 08-24001 | Colorado State University, CO                                    | 09/82 |
| 08-24002 | University of Wyoming, WY  | 09/82 |
| 08-24003 | University of Denver, CO   | 09/82 |
| 08-24004 | University of Denver, CO   | 09/82 |
| 09-20011 | Sacramento Unified School District, CA                           | 08/82 |
| 09-24001 | Rand Corporation, CA   | 05/82 |
| 09-24002 | Rand Corporation, CA   | 07/82 |
| 10-20006 | Washington State Education Agency, WA                            | 08/82 |
| 12-24136 | WESTAT, Inc., MD   | 04/82 |
| 12-24351 | Crow Tribe of Indians, MT  | 03/82 |

SCHEDULE OF  
ACCOUNTS RECEIVABLE

The Senate Committee on Appropriations' report on the Supplemental Appropriations and Rescission Bill of 1980 directed the Inspectors General to include in their semi-annual reports a summary of the total amounts due their agency or Department, as well as amount overdue, and amounts written off as uncollectable during the reporting period. The following schedule was provided by the Office of Financial Management Service for inclusion in our semi-annual report. The accounts receivable statistics are estimates and have not been audited by the OIG. We are therefore unable to attest to the accuracy of the data provided.

DEPARTMENT OF EDUCATION  
PRELIMINARY SCHEDULE OF RECEIVABLES  
AS OF SEPTEMBER 30, 1982

| Section I: RECONCILIATION  | ACCOUNTS RECEIVABLE | LOANS RECEIVABLE | OTHER RECEIVABLE |
|--|---------------------|------------------|------------------|
| 1. Beginning Receivables .....   | 128,875,274         | 9,076,147,296    | 1,984,553        |
| 2. Activity  | 598,930,189         | 729,691,924      | 2,099,180        |
| a. New receivables during the fiscal year .....                                      | -284,325,899        | -187,742,813     |                  |
| b. Repayments of receivables .....   | 430,033,974         | 302,915,839      | -581,089         |
| c. Reclassified amounts .....  | -3,456,815          | -14,125,017      |                  |
| d. Amounts written off .....   |                     |                  |                  |
| 3. Ending receivables  | 870,052,723         | 9,906,887,429    | 3,502,644        |
| Section II: OUTSTANDING RECEIVABLES  |                     |                  |                  |
| 1. Current receivables   | 258,146,980         | 591,469,879      | XXXXXXXXXXXX     |
| a. Not Delinquent .....  |                     |                  |                  |
| b. Delinquent  | 8,254,607           | 60,920,839       | XXXXXXXXXXXX     |
| 1. 1-30 days .....   | 9,763,796           | 95,128,989       | XXXXXXXXXXXX     |
| 2. 31-90 days .....  | 16,792,472          | 215,547,351      | XXXXXXXXXXXX     |
| 3. 91-180 days .....   | 27,461,185          | 324,800,294      | XXXXXXXXXXXX     |
| 4. 181-360 days .....  | 549,633,683         | 1,061,496,953    | XXXXXXXXXXXX     |
| 5. Over 360 days .....   | 611,905,743         | 1,757,894,426    | XXXXXXXXXXXX     |
| Total Delinquent Receivables .....   |                     |                  |                  |
| 2. Non-current receivables .....   | XXXXXXXXXXXX        | 7,557,523,124    | 3,502,644        |
| 3. Total Receivables   | 870,052,723         | 9,906,887,429    | 3,502,644        |
| Section III: ALLOWANCES AND WRITE-OFFS   |                     |                  |                  |
| 1. Total allowances for uncollectible accounts, beginning of period .....            | 1,354,600           | 8,208,000        |                  |
| 2. Total actual write-offs during the fiscal year .....                              | -3,456,815          | -14,125,017      |                  |
| 3. Adjustment to allowance account for the period (provision for loss expense) ..... | 298,211,975         | 949,103,007      |                  |
| 4. Total allowances end of period  | 296,109,760         | 943,185,990      |                  |
| Section IV: ADMINISTRATIVE ACTIONS   |                     |                  |                  |
| 1. Delinquent accounts referred to GAO   |                     |                  |                  |
| a. Number .....  |                     | -0-              |                  |
| b. Amount .....  |                     | -0-              |                  |
| 2. Delinquent accounts referred to Justice   |                     |                  |                  |
| a. Number .....  | 25,737              | 25,744           |                  |
| b. Amount .....  | 17,203,000          | 43,339,838       |                  |

| Section V: RESCHEDULED RECEIVABLES                                     | ACCOUNTS RECEIVABLE  | LOANS RECEIVABLE | OTHER RECEIVABLE |
|--|--|------------------|------------------|
| 1. Current Rescheduled Receivables                                     |  |                  |                  |
| a. Not Delinquent .....  | 1,092,541  |                  | XXXXXXXXXX       |
| b. Delinquent  |  |                  |                  |
| 1. 1-30 days .....   | 113,969  |                  | XXXXXXXXXX       |
| 2. 31-90 days .....  | 55,846   | 20,089           | XXXXXXXXXX       |
| 3. 91-180 days .....   | 367,704  | 247,000          | XXXXXXXXXX       |
| 4. 181-360 days .....  | 40,853   |                  | XXXXXXXXXX       |
| 5. Over 360 days .....   | 2,856,543  |                  | XXXXXXXXXX       |
| Total Delinquent Rescheduled .....                                     | 3,434,915  | 267,089          | XXXXXXXXXX       |
| 2. Non-Current Rescheduled Receivables .....                           | XXXXXXXXXX   |                  |                  |
| 3. Total Rescheduled Receivables                                       | 4,527,456  | 340,258          |                  |
| Section VI: INTEREST AND PENALTIES<br>ON DELINQUENCIES                 |  |                  |                  |
| 1. Beginning interest and penalties .....                              |  | -0-              |                  |
| 2. Activity  |  |                  |                  |
| a. New interest and penalties assessed<br>during the fiscal year ..... |  |                  |                  |
| b. Interest and penalties collected during<br>the fiscal year .....    | 613,397  |                  |                  |
| c. Interest and penalties written off<br>during the fiscal year .....  |  |                  |                  |
| 3. Ending interest and penalties                                       | 613,397  | -0-              |                  |
| SUPPLEMENTAL AGING SCHEDULE  | (Applicable to agencies providing estimates in Section II) |                  |                  |